FROM COMMISSION BROKER TO FEE-BASED ADVISER

TOWARDS THE PROFESSIONALISATION OF THE INDEPENDENT FINANCIAL ADVICE AND PLANNING SECTOR

A project submitted to Middlesex University in partial fulfilment of the requirements for the degree of Doctor of Professional Studies

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Abstract

The idea that the payment of commission to those working within the financial services sector is not in the interests of consumers is gaining ground. Legislation now exists banning the majority of such payments within the financial advice sector. This work considers compliant strategies that might be employed to the benefit of both the adviser community and their clients.

To ascertain existing attitudes, beliefs and practices amongst advisers and product providers semi-structured interviews were conducted and the existence or absence of recurring themes analysed using Applied Thematic Analysis techniques. The needs, as opposed to wants of consumers were identified by analysing records of what clients had actually done and comparing these with their original requirements.

Analysis showed that product providers' aims only partly satisfied the needs of consumers and that independent financial advisers are seen as elements of providers' distribution channels. IFAs espoused the view that they were free from any influence from product providers, without being able to demonstrate what other sources of revenue they had. Furthermore, the income they did receive was usually calculated as a percentage of the value of the investment product sold, both initially and thereafter.

Changes in practice are inevitable for to survive as Independent Financial Advisers and Planners there must be compliance with the regulations that a regulator imposes. Commissions, by any name, will ultimately be replaced by a fees-based service. To comply a knowledge of business management, including cost awareness and product pricing, will be vital. Invoicing clients transparently for the entirety of the service will ensure that businesses operate ethically and have long-term futures that are no longer reliant upon product providers. Furthermore, they will be organised around the constituent parts of the title, "Independent," "Financial" and "Adviser/Planner."

This work points towards a practical solution.

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Section 1 – Introduction and Background

Chapter 1

1.1 Introduction

Those reading this will have a personal interest in what it says, whether or not they recognise it at the outset, for we are all interested in our own well-being, whether it be for the present or the future. That well-being takes the form of our ability to protect ourselves, our families, our friends. The most used measure of that ability is expressed by the amount of money that is available to us now and the amount which will be available in the future. That capability to provide protection is manifested in the capacity to shelter, feed, clothe and compete for the right to use and acquire scarce resources (Maslow, Frager et al. 1970)

That calls for planning, which you may feel you can do yourself. However, as matters soon become more complex you may feel that the services of a Financial Planner or Financial Adviser could be an advantage, because they understand investment and savings and are required to act in your best interests and we all know what their role is, don't we? Well, not necessarily, so read on.

As our species has evolved we have learned that money is a better substitute as a bargaining tool than the overt aggression of war, although its effects may ultimately be no less invasive, or damaging. We are also a gregarious species preferring to live in groups and encourage the development of individual skills for the benefit of the wider group. To encourage us to improve those skills, where they continue to be required, we reward the supplier, usually in the form of money, so that they feel confident enough to abandon any attempt to provide their every need personally, because they sense themselves better empowered to acquire the bulk of their needs by acquiring it from others, again usually using money to encourage another party to provide it (Keynes, 2006).

So our desire to survive instinctively drives us towards acquiring the tool or tools to ensure it. If money is the main medium for this then the first step is to ensure that it is available when it is needed or expected to be needed. As the previous paragraph suggests we do this by building skills that enable us to work or team up with others who work, as in a marriage. In a modern society we also recognise that we usually live beyond an age where we continue to be able to work and in the last 200 years have developed a community system which allows individuals to cease working, but continue to receive the means for survival in the form of pensions (Blackburn 2003).

At an individual level all of this is performed ultimately as a form of self-interest, but since we live in a community of fellow creatures it must be expected that each member of that community is driven by personal self-interest, which at an individual level is seen as more important than that of its neighbours.

So in summary, we have needs and those needs can best be met directly by the balanced application of personal skills and the availability of money. Therefore, the more time that is sacrificed to the addressing of needs by using personal skills, the less the time that is available to employ in the acquisition of money. So the choice filters down to a decision as to whether the time cost of not going to work, and thereby not earning money to pay for the purchase of those needs from another party, is greater than or less than the saving made by providing for those needs personally.

Given that beyond the faint notions of a hunter/gatherer existence no-one is capable of feeding, housing, maintaining and protecting against the ravages of illness the need to look to one another for assistance is paramount. In effect we seek support from others to act as our agents in providing for our needs. In return we reward them with some of the money we have received as a reward for providing for the needs of others who have requested that we apply our own skills, at a cost below what it would have cost them to do it, to meet a particular need. In effect we overtly or subliminally undertake a personal cost/benefit analysis.

Of course, each agent has his or her own self-interest at heart, as alluded to above. Is it likely that they will place their interest above that of your own and if they do could that introduce, in effect, a conflict of interest? As a self-interest it follows that must be the case, because anything else represents self-sacrifice and altruism and thus, by its very nature is not self-interest, unless placing another's interest above your own ultimately serves your own, which is then a common interest.

In a modern society, the simple agent is less apparent, often working within much larger organisations, but these are once again a different form of community where the needs are defined as being narrower, but nonetheless, reliant upon individual members of that community to provide skills in exchange for money. We know these organisations by many names: firms, partnerships, corporations, local and national authorities, but all can be or are available as agents acting for the individual and all, therefore, have interests which could conflict with our own self-interest (Jensen and Meckling 1979).

Some of those agents are very demanding and insistent that we provide monetary contributions to them, for example local and national government agencies to provide for roads, policing, rubbish collection, education and health programmes. At a personal level these are non-discretionary costs – we have to pay them as part of the cost of being a member of that community.

Others are available to supply a critical need, but compete with other potential satisfiers of that need for our custom, for example food manufacturers. Such expenditure is effectively also non-discretionary, but retains a personal ability to direct it towards a particular agent using subjective decisions. These may include perceived quality, cost and suitability. To protect their own self-interest those agents may attempt to draw potential customers to them, as opposed to supporting a competitor, by highlighting, that is marketing, apparent positive aspects of their product/service, but they are not likely to draw attention to any of its drawbacks or shortcomings, unless obliged to do so by some other body.

Such other bodies are often known as regulators, have statutory powers granted by government (an agent of the community) and are empowered to act as agents for that same community themselves. But again they will have self-interest, not least in their own survival, for survival is at the root of all self-interest.

So if you want to ensure a flow of money to meet current needs and short-term and long-term future needs you need to have a job and somewhere to place any savings for the future and all of this seems to be in the hands of agents of one sort or another. The challenge is to determine which agent or agents to employ in your quest and how to decide whether they are and remain fit for your purpose.

I refer later on to the work of March and Simon who observed that we reach our decisions by applying some or all of the knowledge, information and data within our personal remit, but excluding any existing input which remains beyond the boundaries of our cognition (March and Simon 1958). However, when seeking advice on financial planning three main avenues of such input appear to be available, namely the provider/producer of investment products, the financial adviser, in one or more of their many guises, or friends, colleagues and relatives. Each group may be perceived as having different levels of expertise, which they may or may not be prepared to share, and each one should be recognised as being an agent and not necessarily wholly or even partially yours. You may also recognise that your own position is possibly one of being an agent acting upon behalf of your family or colleagues.

Each one of these groups positions themselves in different ways in relation to the issue of supporting the financial planning requirement and how they do this is explored in the work that follows.

1.2 - The Purpose, Framing and Scope of the Project

As alluded to in the introduction to this work we are all agents in one form or another and we all have a primary interest in our personal well-being and money, or money equivalent, is a major expression of that well-being. You will read this to see if it has anything of value for your personal advantage, because we all like to think at a superficial level that we are already safe and secure and therefore only need to look for enhancement. It may be that the reality is that at a subliminal level we feel insecure and instinctively seek to ensure our survival. This all begs the question, just how secure are we, if at all, and how permanent is that security.

So if you wish not only to survive in the business of independent financial planning, but to thrive you would do well to reflect upon Peter Drucker's observation, "that business purpose and business mission are so rarely given adequate thought is perhaps the most important cause of business frustration and failure" (Drucker 1974). Yes it is an old idea, but rather like breathing some practices tend not to age (Mintzberg 2013).

In addressing the issue of exactly what purpose is in the context of this project, I refer to J A Pearce's work regarding mission statements (Pearce 1982) who held that purpose statements generally identify some or all of the following:

- The product or service, the market and the nature of delivery;
- The aims and objectives of the community of practice;
- The philosophy, or statement of basic beliefs, values, aspirations and priorities;
- Self-concept, or understanding of place within the environment and position relative to competitors;
- The present and future public image;
- The attitude to insider and outsider claimants, interest groups and/or stakeholders.

These purpose statements provide the foundations for the development of this project with each one of the interview topics evolving from one of them. These have been used to seek the views of three different communities with a mutual interest in the financial planning process.

We live in such communities and have done for millennia – it is an established method for improving our chances of survival, both as a group and individually. In fact, we live within a variety of communities, which might include business types, geographical location, occupation, gender, age group, race, language, religion and many others (Young 2011). Our communities' security and therefore our own, can be increased or reduced in one of two general ways, namely through decisions made by ourselves and through decisions made by others. It could be helpful to frame this in terms of a SWOT analysis, because looking at our personal strengths and weaknesses (or limitations) and the context within which they are obliged to exist, can provide a basis for understanding why we are where we are and how we might move on to achieve our future goals.

Fundamentally, we would all like to know where we are now, where we are going and how we are going to reach our destination. To do it we will need to engage with agents claiming to act upon our behalf, because there is a limit to our capacity and ability to undertake many tasks personally or as an organisation. In doing so we and they will all be asking why we wish to commit to each of these potential relationships – the "what's in it for me?" question. Is the relationship likely to become a zero-sum game with equal winners and losers and if so into which camp will you and they fall (Schelling 1960)? Alternatively, could it be that this proposed arrangement has the potential for a win-win outcome, fruitful for all concerned and the basis for a continuation of the relationship in the longer-term (Nalebuff, Brandenburger et al. 1996)?

The ultimate purpose of this work is to stimulate debate, explore current thinking and consider opportunities that may shape the future for the financial planning sector. It is framed by consideration of both apparent and possible future employment, or avoidance, of particular moral codes, ethics and forms of remuneration within the financial planning community and how members of that community believe these might assist in maintaining their survival, or providing commercial advantage, or lead to their demise.

The following table summarises how, in undertaking this work, I have sought to understand the different drivers and cultures that exist within the various sub-sectors of advisers and planners, product providers and consumers and how they view one another. What shared goals do they have apart from increasing their wealth, where there is a potential for conflicts of interest how can these be resolved, if at all and do these three groups coordinate their activities and aims in such a way as to ensure that the outcomes produce something which is for the common good, at least in the main?

The data, information and insight gained from these sources have provided the basis for the evaluations, conclusions and recommendations presented in Chapter 6.

Source Type	Research Methods Employed	Sets Numbers
Consumers	Semi-structured interviews	2
	Semi-structured questionnaires	76
	Client Files Analysis	50
Independent Financial Advisers	Semi-structured interviews	7
	Unstructured surveys	97
Product Providers	Semi-structured interviews	3
Literature	Reviewing books, magazines, research papers in addition to general articles relating to this work	260+

Table 1 - Sources, Methods and Ranges Employed in this Research (Cawdell K E 2015)

In restricting my research enquiries to those operating within the three groupings referred to earlier, I acknowledged that other parties have an interest, but at a different level and with a different purpose. The selected three are seen as being very closely inter-related, but unequal, stakeholders. The possibility of creating focus groups amongst independent financial planners to encourage greater freedom of expression and a less constrained view of contributors' true attitudes was to be employed, in addition to one-to-one interviews. With the aim of providing a common starting point for all discussions a range of discussion topics was prepared, with all contributors encouraged to avoid seeing these as boundary limitations and to expand their responses beyond these.

Given that the meetings were constructed round the provision of a menu of topics to employ in meeting with contributors, how each topic was chosen is important, because it could and probably did have an influence upon the general direction of the responses and outcomes. A review of the list of topics sent to each contributor prior to a meeting reveals that the list was expanded after the early meetings had taken place. Originally, it had been hoped that themes relating to morals and ethics would emerge during the conversations, but the reality was that this could not be relied upon, with some contributors embracing the philosophies in general and others avoiding the subjects. In consequence a topic relating to integrity was added for all contributors' consideration prior to the meeting and subsequently considered in greater detail in Chapter 3.8. It was only whilst writing this report that I recognised that the rationale for compiling this menu of topics reflected Pearce's purpose statements, to which I referred earlier. It might be suggested that either this confirms the logic of the approach, or that I have been driven subliminally by a concept absorbed earlier in my academic development.

The ultimate aim of these meetings, which were recorded verbatim with the contributors' agreement, was to compare and contrast the themes resulting from the transcripts, in addition to noting their regularity or complete absence from some responses.

Critically, however, knowing and being able to articulate what independent financial planners and their associated players want is and remains vital and as recorded later, meeting this aim by direct research was torpedoed at an early stage. This led to abandoning one approach for independent financial planners altogether and changing the process of obtaining responses from private individuals. Nevertheless, this outcome in respect of consumers was an important one, because further investigation revealed that concomitant research by another financial planner using quantitative methods as a basis for his master's dissertation had met with the same impediments.

This example of specific third party academic commentary aiding, supporting or challenging my own results and interpretations has been replicated by the gathering of recent literature appertaining to financial planning issues provided by specialist journalists and the professional bodies and used throughout this work.

These are expanded upon in later chapters, but are extremely relevant when it comes to attempting to understand how the independent financial planning sector can move from where it is now to a long-term, sustainable future.

By now you may be confused by the apparently cavalier way in which the terms "adviser" and "planner" are used, apparently interchangeably, as in independent financial adviser and independent financial planner? If so, you are not alone and what follows intends to delve deeper into this apparent inconsistency, along with the way in which other words used within the financial planning sector might also be considered bewildering.

1.3 – The Discussion Topics – their Origins, Determination and Purpose

The initial motivation for providing a menu of topics was to assist all contributors in marshalling their thoughts in readiness for our meetings. My concern with this was that in providing topics there could be a suggestion that these shaped the content and direction of discussions (Guba and Lincoln 1994). Whilst this was not my espoused intention, it could nevertheless have been an unintended consequence, a product of my own ontology.

Although it is important to bear in mind this potential weakness, it was thought to be worth the risk to ensure that contributors could begin their involvement by discussing areas with which they might feel generally comfortable and confident – essentially a catalyst for the loosening of tongues. As we shall see later this stratagem was very successful in some ways, encouraging and facilitating the development of contributors' own thoughts and perspectives on current issues and future developments.

Table 2 below sets down the exact topics as provided to contributors at least a week prior to their meeting.

1	In your opinion what purposes does a financial planning firm aim to fulfil?
2	What is the role of a financial adviser?
3	How would you describe the characteristics of fees?
4	What are the features of commission as applied within a financial planning firm?
5	What do you believe to be the barriers to future financial success and development in the independent financial advice sector?
6	From your perspective what will be the future role of experience, education and qualification within the financial planning sector
7	What product/service range is offered by the financial planning organisation with which you are most familiar?
8	In a general sense in what way does integrity shape the process of financial planning?

Table 2 - Menu of Potential Topics for Discussion

The context within which these topics have emerged and developed was initially determined by various statutes and reviews seeking changes in the way in which the financial services sector functioned is set out in Table 3 - 57 Years of Regulation in the Financial Services Sector. Its comparatively timid offering commenced with the Prevention of Fraud (Investments) Act in 1958

Year	Event
1958	Prevention of Fraud (Investments) Act
1984	Gower Report – “Review of Investor Protection”
1986	Financial Services Act
1988	1986 Financial Services Act implemented – regulation by Self-Regulating Organisations (SRO’s) arrives for IFAs
1994	The Personal Investment Authority replaces the Financial Intermediaries, Managers and Brokers Regulatory Authority (FIMBRA) & the Life Assurance and Unit Trust Regulatory Organisation (LAUTRO)
2000	Financial Services and Markets Act
2001	The Financial Services Authority assumes responsibility for regulation – SRO’s abolished
2008	Failure of Northern Rock Bank amid worldwide financial collapse.
2011	Legislation introduced to set up the Financial Conduct Authority
2013	Financial Conduct Authority replaces Financial Services Authority - Retail Distribution Review findings implemented resulting in widespread banning of commission payments

Table 3 - 57 Years of Regulation in the Financial Services Sector

Following the much later Gower Report the UK Parliament introduced a scheme of regulation for investment business in the form of the Financial Services Act 1986, which came into effect in April 1988. Prior to the implementation of this legislation impediments were not enforced on the ability of anyone to sell insurance and investments products, other than the necessity to hold an agency with a provider. Such agencies could be obtained and were offered without any real difficulty. After implementation it followed that a framework of monitoring would be required leading to the formation of organisations tasked with duties that include overseeing of compliance with the regulations.

The era of the free-floating agent effectively ceased in April 1988 to be replaced by organisations ever more focused upon developing practices that were consistent with the regulations contained in the first Act and in the subsequent Financial Services and Markets Act 2000 which introduced the concept of “Treating Customers Fairly”, a Retail Distribution Review and, following the financial collapses of 2008, the restriction of the payment of commission in exchange for the sale of a provider’s financial product.

Topic 1 sought to reveal whether firms for which contributors worked or engaged with employed practices aimed at meeting these requirements with a view to strengthening their futures or simply to appear compliant.

Topic 2 is set within the landscape provided by the original 1986 Act which set down adviser classifications. These determined whether a financial adviser was tied to the selling of one supplier's products or had multiple agencies entitling him/her to be described as an independent financial adviser. The 1986 Act required that appropriate advice accompanied a sale, but the later 2000 Act with its emphasis on "Treating Customers Fairly" shifted that emphasis towards the advice process and, as is expanded upon later in this work, the implied necessity to charge activity-related fees.

Topics 3 and 4 explored how advisers differentiated between those fees and a commission, if indeed they did, because the current regulator has reiterated its determination to remove commission-like payments from the sector. This in turn must be interpreted as generating a major change in the ability of firms to survive where those differences are not understood and, therefore, are without an alternative plan.

Topic 5 had been proposed as a discussion point capable of revealing espoused attitudes, of both a group-think and personal nature, and the extent to which beliefs were rooted in short-term or strategic modes.

This led on to appraisals concerning the source of future advisers with sufficient experience and whether there was a need for higher levels of education and qualifications, as raised when contributing to Topic 6. In this context it is worth remembering that before the introduction of regulation in 1988 an individual's capacity to sell a financial product was limited only by that individual's ability to obtain an agency or agencies of product providers. As a consequence most solicitors and accountants in the United Kingdom were active in the sector and held such agencies, in addition to insurance companies' representatives, insurance brokers and sundry other persons across the realm. How many of these agencies existed is not recorded, because in such an unregulated setting records of this nature were not required, but it was thought, conjecturally, to be not less than 130,000, a figure which was quite possible given the size of the legal and accounting professional bodies referred to above.

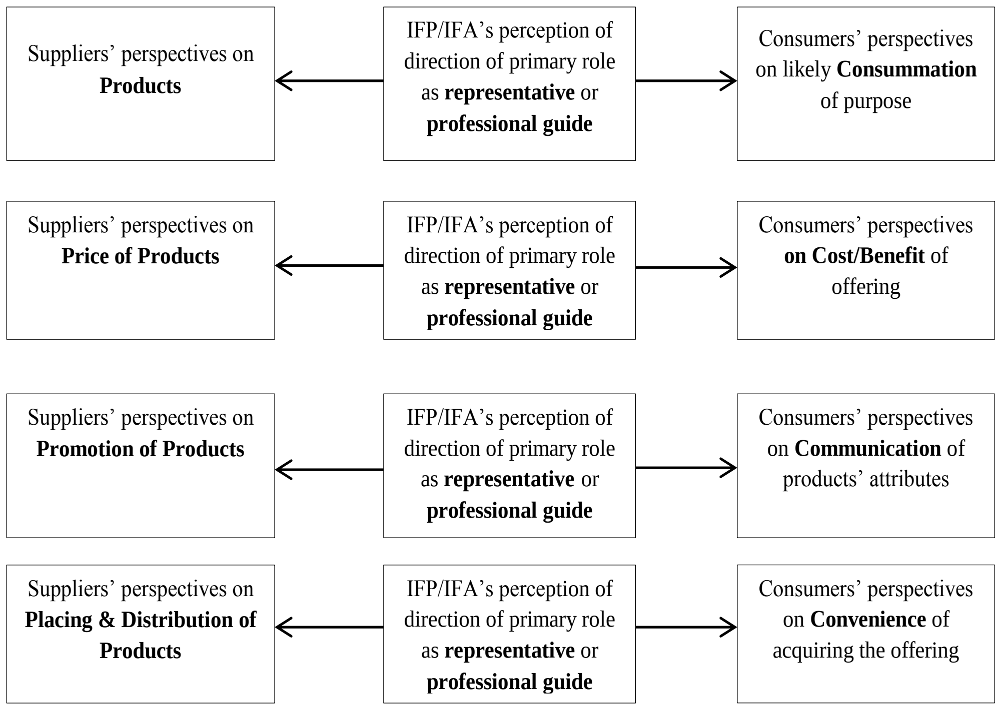
When mandatory qualifications were first introduced as a result of the 1986 Act the numbers working as financial products salespersons fell dramatically and when the minimum requirements were raised by the later Act they dropped even further. By October 2013 the number of appropriately qualified and authorised financial advisers, that is excluding stockbrokers and discretionary fund managers, was 21,496 (www.ftadviser.com published 25/11/2014).

This topic also offered contributors the opportunity to consider whether they thought that enhanced experience, education and the raising of qualifications requirements would ensure the facilitation of the necessary resources required to provide a purely advisory service generating fee income.

Topic 7 provided an opportunity to consider whether or how the service range offered matched the aims unveiled during the consideration of Topic 1. Were the ranges consistent with the sector's development within the framework proposed by the Financial Conduct Authority and an organisation's sustainable future or simply a continuation of what had always been undertaken, namely the selling of financial products in exchange for a commission.

Finally, Topic 8 evolved from the current attempts to develop consumer trust in the financial services sector, about which much has been written, particularly by bodies such as The Personal Finance Society, and is referred to often in the succeeding chapters of this work. Whilst the term trust was implicit in the 1986 Act, replacing the age-old concept of caveat emptor, its introduction into the mainstream of strategic rhetoric was via the 2000 Act with its reference to Treating Customers Fairly. Contributors' understanding of the concept of integrity, or their lack of it, was used to inform this work with prevailing attitudes and interpretations, reaching out into issues of ethics and morals.

In addressing all three contribution groups I had intended to employ this same menu of topics for discussion. The hope was that in doing so themes from three or more different perspectives would emerge, thereby employing some of the features of 360 feedback techniques (Antonioni 1996). To achieve this discussion topics offering the opportunity to think in terms of providers or consumers, or even better both, were required. As a base point, therefore, topics were created around marketing mix concepts, embracing the marketer's position (Borden 1964) and that of consumers (Lautenborn 1990).



Group Perspective Diagram with acknowledgements to Borden, Lautenborn, Christensen, Cook & Hall

Figure 1 - Different Attributes of a Sales Representative and a Professional Guide

As an independent financial adviser you may wish to reflect upon your own status, as intimated in the above diagram, before considering the views of your peers and emergent themes recorded later. You may also wish to consider Christensen, Cook and Hall's work that took Lautenborn's thoughts and expanded them across a broader range of delivery concepts (2005). If you prefer the term independent financial planner, then you should also be able to discern why the different label is important to you and why and what impact it has on the arrows' directions. You will also be interested in considering the contributions of your peers and others towards determining the appropriateness of each term, to be discussed in later chapters.

In the previous chapter, I admitted to subsequently having recognised that this suite of questions also reflected Pearce's Statements of Objectives. The first topic offered contributors the opportunity of articulating and expanding upon their thoughts in respect of this most fundamental of business requirements, that of understanding the whole reason for the existence of the organisation, be it composed of one person or many.

In an attempt to differentiate between the roles of a financial planning organisation and those employed by it the second topic sought to examine their thoughts on the role of a financial planner, as distinct from the organisation's. These first two topics were intended to discover whether, particularly in the case of one-person businesses, there existed an understanding of the various component elements of an organisation and the need to focus energies in ways that maximised efficiency, effectiveness and economy (Sheldon, 1996).

As an introduction to a later theme my next two topics, addressed in Chapters 3.3 and 3.4 respectively, strove to gain an understanding of how certain critical words are construed. In these cases, an expansion upon the meaning, nature and characteristic of the words "fees" and "commission" were considered, because with the implementation of the regulator's Retail Distribution Review in January 2013, fees became obligatory, whilst commissions payments were almost completely outlawed, at least in theory. How was this required change now being interpreted amongst the three groups? A perspective on this is offered in Chapter 3.2 by way of analogy to a duck and the characteristics of commission.

The fifth topic had in mind an element of this project's title and one which goes right to the heart of every businessperson's thinking, namely "What do you believe to be the barriers to future financial success and development in the independent financial advice sector?" With a nod to Michael Porter's Five Forces (Porter 1980) the degree of understanding of the current and future environment was sought, together with thoughts on future skills and strategic planning requirements.

In asking in Chapter 3.6, "From your perspective what will be the future role of experience, education and qualification within the financial planning sector?" an opportunity was offered to address how these three attributes might impact upon the members of each contributor group. Whose experience was being considered, the provider's, the financial adviser's or the private individual's and experience of what? In terms of education was this at a primary, secondary, tertiary, professional or consumer level and how could that play a part in addressing the previous topic. What is the quality of qualification, how is it set and how is it perceived by, as Pearce puts it amongst his Purpose Statements, insider and outsider claimants, interest groups and/or stakeholders?

“What product/service range is offered by the financial planning organisation with which you are most familiar?” was posited to obtain an insight into how each group saw the role of financial planners, if indeed they saw one at all. Was it seen as providing a narrow or broad range of services and was there an expectation that the range required a short or long-term relationship. It was deliberately couched in terms which allowed respondents to approach the topic from a consumer or supplier stance, or both.

As admitted earlier the final topic was proffered as a later addition. Whilst professional ethics has suddenly become an important theme for professional bodies, urged on by the current regulator, references to ethics or morality were not included in responses from financial planners during the earliest meetings. So, “In a general sense in what way does integrity shape the process of financial planning?” was added to the topics menu in an attempt to tease out such a discussion without directly mentioning the words, and without suggesting that it was restricted to just one of the group’s behaviours.

These were the origins, determinations and purposes of the discussion topics. They were conceived in marketing mix theories and organisational purpose concepts with the aim of providing a comfortable starting point from which contributors could develop their own thoughts and express their own views. It was made very clear to contributors that these were not intended to be prescriptive, but as initial openings to their unrestricted thoughts. I believe that the emergent themes cast a fascinating light on the attitudes of the various parties to the sector and how some of these themes could define the future for the independent financial adviser or planner.

In undertaking such research it must always be the aim of the researcher to avoid influencing outcomes by imposing their own attitudes upon the process, a matter to which I have referred at the beginning of this chapter in relation to the selection of discussion topics. By providing an outline of my own lived experience in the next chapter I document how my journey and personal traits have brought me to this point and how, in recognising that, I have attempted to avoid skewing the results.

1.4 - My Professional Journey and its Impact upon the Rationale for undertaking this Project

In this section I revisit my career path with the aim of understanding how my journey into this project evolved.

My professional journey commenced in 1961 with employment as a junior bank clerk with the Westminster Bank. It was still an era when retail banks concentrated upon the practice of acting as deposit holders for longer-term savers, repositories for short-term cash and providers of private and commercial loans to those able to provide suitable collateral. The money advanced to borrowers was sourced from a relatively small portion of the funds deposited with the banks for longer-term saving. Income was generated from fees charged to customers for the maintenance of their current accounts, the interest charged on loans and through the overnight lending system in the Money Market managed in the City of London. Costs came in the form of running the branch networks around the country and the interest paid to depositors. Banks were seen as institutions which were staid, reliable, respected and consistent in remaining with their core purpose as service providers.

The bank I joined has long been subsumed into a group calling itself Royal Bank of Scotland, whose independence was recently forcibly surrendered to the UK Treasury by reason of desperate need and its standing reduced from respect to derision and worse.

For anyone wishing to enter business the lessons to be learned from these changes and more importantly their causes are salutary. When banks decided to promote, that is sell, the lending of funds, without requiring suitable security, they increased their risks levels significantly and ultimately in the next economic downturn suffered major losses as borrowers defaulted. This was an early example of seeking short-term profits without considering the probability of longer-term costs, something which they then repeated many times and on a much grander scale when selling life assurance policies, motor and home insurance, pensions transfers, precipice bonds and payment protection plans. They had moved from an ethos of providing a service for which they charged to one in which sales targets and commissions earned were key and the customer was merely the means to achieving success.

Following three years with the bank I joined an engineering company, Dexion Ltd, as a cost accounts clerk. The work familiarised me with the need to know what the costs of the business were and what drove those costs. I later recognised that when an organisation understands its costs characteristics it is in a stronger position to protect itself from elements such as under-pricing or simply mispricing its products or services. This recognition developed in me a three-step approach to business management, namely what do we need, what will it cost and finally how will we pay for it? The practice of cost accounting developed into what is now known as management accounting, a process that employs this three-step approach and broadens it to embrace the technique of comparing actual emerging outcomes with the planned outcomes, thereby facilitating the taking of corrective, timely adjustments where required.

Two years with Dexion was followed by spells of employment with a private forestry company which relied for its success on the prevailing punitive tax rules applicable to the very wealthy and the Courtaulds empire, where production workers were paid on the basis of the work completed, not on the sales value of the merchandise created. In the Courtaulds case the company eventually ceased trading because overseas competitors could produce the same merchandise for a fraction of the cost. The forestry company ceased trading when the government of the day substantially diminished the benefits available under the tax relief rules and the overall tax rates. In summary both suffered from having failed to consider the possibility of changing business contexts and prepare accordingly.

Looking back, as I developed my management skills during an era when managers were often promoted on the basis of time served, I found myself constantly frustrated by my ignorance of what the role, as opposed to the status, of a manager was then and is now. If one understands the broader requirements it becomes possible to attend to these, whilst avoiding areas that fall beyond those boundaries. Given that Henri Fayol had provided a workable summation of a manager's functions my ignorance, and the ignorance of my peers, appears with hindsight all the more irksome (Pugh and Hickson 2007). His pronouncements on the role of a manager may have been theory, but as a route map in a period of evolved management, as opposed to trained management, it would have been an illuminating beacon.

If consideration of management practices of the pre 1980's could lead to the development of a generally more informed and competent manager could this be replicated elsewhere? Could closer scrutiny of the role played by financial planners now and the extent to which it mirrored those earlier practices, assist in the achievement of improving the financial and ethical relationship aspects, referred to previously? In Chapters 4 and 5 I visit the question of whether there should be greater emphasis on Fayol's framework of planning, organising, commanding, controlling and coordinating within the management of this sector, as in all others.

As the final days of Heath government (1970-74) drew to an end I left Courtaulds and became self-employed, a status familiar to many independent financial advisers and planners.

The term entrepreneur has recently been hijacked to describe all who are self-employed. Whilst it does not have a universal definition (Gartner 1990), according to Jean-Baptist Say (Burns 2001) true entrepreneurs shift economic resources from an area of lower productivity to an area of higher productivity and greater yield. Did I have the skills and aptitudes necessary to be an entrepreneur, as opposed to being simply self-employed; by the time I had discovered that I had the die had been long cast?

The nature of my self-employment soon became that of a personal lines insurance broker, remunerated by a commission paid by the insurance company to me, the size of the commission being dictated by a percentage rate pre-set by the insurance company and applied to the premiums I collected. The same principle applied to life assurance policies which I sold; the cost of the effort and resource I applied to the selling of such products was not taken into account, which was contrary to the three-step process referred to above. Such a method of remuneration could be both a blessing and a curse, partly because costs could exceed commissions earned on the sale and vice versa, and partly because there was a temptation to sell some products simple because they involved little effort for comparatively substantial reward (A £50 per month life assurance premium could generate a commission of £1,130, for example) The lack of a relationship between costs of the business and its income generating model struck me as flawed, then and now.

Notwithstanding the aforegoing, an interesting facet of motor insurance broking is that the purchaser is almost always driven by price (Yeo, Smith et al. 2001). However, before the advent of e-marketed products the buyer had the opportunity to discuss the appropriateness of a particular motor insurance policy with their broker. At that point the benefits of taking a more expensive, but more suitable cover could be discussed before purchase. The broker was remunerated by a commission paid by the product provider as a percentage of the premium collected, but the buyer could be better informed before the contract was sealed, because the broker had added value in the form of advice. With the virtual removal of the personal lines broker from the market the availability of such added value has also been lost. What remains is the highlighting of product price and a statutory list of its features; potential buyers are provided with information but are not necessarily better informed.

The strength of the broker distributed system was that whilst the broker was motivated to sell a product to earn a commission, the level of that commission tended to be constrained by the prevailing premium in the market. The weakness was that the broker expert may have had very limited knowledge of his or her subject and this weakness could and did extend to the sale of financial products, such as a range of life assurance products.

My own dilemma was rooted in that nagging tension between an unspoken admission of lack of competence attended by the moral dilemma of adopting the guise of an expert broker and aspiration. What I could do and do well was to prepare and apply budgets. Budgets, as I observe in Chapter 5, ensure that a business has a plan to cover the short term, can facilitate comparing that plan with reality and offer the opportunity to highlight potential weaknesses in the times ahead. They also provide a basis for avoiding losing money over the longer term and I was very keen to do that.

In March 1976 Harold Wilson unexpectedly tendered his resignation as Prime Minister, his successor Jim Callaghan lost the struggle to remain in post and in 1979 Margaret Thatcher was swept into power full of revolutionary zeal. Change was in the air and from the chaos of the "winter of discontent" we were led into an era of deregulation, offering many of the opportunities and threats of the free market. By the mid 1980's it was clear that it was possible to have too much of a good thing and that regulation of the financial services sector was both desirable and necessary. The result was the enactment of the Financial Services Act 1986, requiring regulated accountability. The press challenged the concept of self-regulation for the financial services sector, suggesting that it was not possible for an industry to police itself, although despite the recommendations of the Leveson Inquiry into press regulation they continue to support the idea for themselves (Leveson, 2012).

From an intermediary perspective this offered the options of remaining as an independent introducer of business, tying oneself to a particular insurance company, whilst remaining self-employed, or withdrawing from the sector entirely. In any event the insurance company remained the source of remuneration and dictator of its terms and levels, within the boundaries set by the new regulators. Notwithstanding these issues, what had now been incubated was a clear desire to narrow down even further my choice of career and, by extension, the nature of a yet-to-be considered doctoral project; I was focusing upon the financial services sector and taking on the role of adviser and planner to and for clients.

Perhaps it was at this point that I first began to think strategically. In my view being tied to one company could only result in my being obliged to achieve targets and sell to customers regardless of their real needs, which for me was morally unacceptable. I opted for independence and sat the embryonic and non-mandatory life and pensions examinations of the Chartered Insurance Institute. My success in these examinations provided me with improved knowledge, self-esteem and competitive advantage and the ability to provide enhanced guidance to clients.

Regulation brought with it substantial additional cost, a prescriptive framework and the attention of a press eager to expose the lack of technical skill and knowledge of the greater part of the life assurance industry's sales forces. It seemed to me then that a drive towards setting standards at a level of competence far in advance of the extant setting was a virtual certainty. Thousands of others in the sector decided to exit to avoid having to meet these modest requirements, making it less competitive for those who remained (Sparrow, Matlay et al. 2001).

The recognition that I was an Independent Financial Adviser recommending investment, protection and savings plans, often on the basis of their perceived tax advantages, without having a basic knowledge of taxation, smacked of moral bankruptcy and was responsible for a shift in my paradigm. I determined to study at the advanced level of examinations, equivalent now to Qualifications and Curriculum Authority's (QCA) Level Four. From passing the G10 Taxation and Trusts paper I proceeded to pass two further papers, one in Personal Investment Planning (G20) and the other in Pensions (G60) and achieve, according to the Chartered Insurance Institute (CII), professional status. The appetite for study had been whetted and the discipline to study within a distance learning framework, nurtured. The needle in the moral compass was now aligned rather more closely towards ethical north, a yoking together of the issues raised in Chapter 3.6 on experience, education and qualification with Chapter 3.8 on integrity.

Shortly after the completion of my professional examinations the CII invited me to become an examiner providing an opportunity to understand the general level of achievement being attained by my occupational peers, whilst at the same time facilitating my continuous professional development.

Completion of my professional examinations was followed by further study, but this time of an academic nature, namely a Master's Degree in Business Administration (MBA)

A very important outcome of the MBA course was the developing of a facility for understanding the benefits of reflective writing and recording (Winter, Buck et al. 1999). A requirement was to keep a written record, using reflective techniques. As the weeks passed I noticed that recording an event also provided the opportunity to consider how that event might have evolved, how I had addressed it and how I might have approached it in a different way. In considering issues of a problematic nature the pedestrian recording of it enabled my brain to consider the alternative perspectives, including how the other parties to the event might have thought and what they might see as a resolution (Deutsch, Coleman et al. 2011).

As part of the process of studying towards the award of my degree I had taken the opportunity to undertake research and reflection constituted a key part of the process.

An important learning point in the course covered the significance of broadening and maintaining networks of relationships during and after the completion of my degree. As a result, I consciously built a network of people, with the objective of widening my connections and contacts. Because the underlying principle was not simply sales related, but rooted in a desire to maintain wider social intercourse with people, for its own sake, I discovered an ever-growing array of opportunities for academic, social and business development.

Such outcomes owe more to the concepts of the Socialisation, Externalisation, Combination and Internalisation (SECI) model and the enabling context of Ba, creating opportunities to be acted and reflected upon and then again repeating the process, and much less to the manufacture of predetermined selling opportunities (Nonaka, Toyama et al. 2005). In effect it is about dynamic knowledge creation and engaging in a long-term strategy, as opposed to the short tactical stratagem. In terms of its usefulness in relation to this project it provides a framework for compiling sources for robust research amongst relevant stakeholders within the industry and profession and thereby stimulating further discussions amongst those participants with their peers and associates.

When networking and reflection are considered within the context of my own psychometric profiles, referred to towards the end of this review, they assist in identifying what is practical (for me), what I should avoid and the most likely route to achieving positive outcomes for all concerned.

Indeed, given that my personal characteristics include a desire to communicate knowledge to others taking up a parallel career as a university lecturer was a natural, although previously unconsidered, development. Not only could I continue advising clients within our practice, I could inform my lectures with an immediacy not generally available to students, particularly at post-graduate levels. That is I could teach not only about business and finance, but for business and finance (Tolley 1983), an approach supported by Linda Hicks (2002) when referring to Kolb and his colleagues. They suggested that partnerships between education and industry should create feedback loops which enable interactions between ideas and action.

You will observe later from remarks made by a number of contributors to this research that they too believe that such links, established from quite an early age could have a considerable bearing upon the future success, or otherwise of the advice and planning sector. From a DProf perspective underpinning professional practice, both current and proposed, with suitable pedagogical concepts should provide a solid platform for consideration of how to motivate change.

Whilst occupied by my preparation for lectures, studying for the PGCAP and seeing clients, our university department decided to introduce a new BSc in International Finance degree, an area which aligned closely with my overall experience. As a consequence I undertook negotiations with two of the main professional bodies, to ascertain what their expectations of such a course would be and then arranged for a focus group composed of Chartered Financial Planners. This enabled active professionals to discuss their expected future requirements, consistent with what they saw as developments within their sector, whilst at the same time enabling the university to understand their perspective. It also provided a foundation for the maintenance of future links between that element of the financial services sector and the university.

From a personal perspective the term “future” can be interpreted as covering both a planned and an emergent horizon, with the former sometimes playing the role of director and sometimes the directed.

Thus, my plans for my future included the undertaking of research and the compilation of knowledge which would lead to the completion of my DProf.

Furthermore, I wished to assist in changing the existing culture of the financial planning sector to the mutual advantage of what at this stage I presumed to be the main stakeholders, namely regulators, suppliers, consumers and advisers. What is the evidence that this might be possible and to what extent do I have the facility to attempt this? More importantly, however, how do such desires interfere with the need to take a completely independent research position exploring the influences of morality, ethics and remuneration on the existence, development and survival of the independent financial advice sector?

An underlying aim in recording my journey and lived-experience is to seek to highlight potential conflicts of personal interest with professional and academic goals and recognition of such latent contradictions is a rational starting point. Conducting research in a manner intentionally free of bias would also leave open the door to having such pre-conceptions imbued with a liberal dose of realism.

In my formative years my internal radar was turned towards the simplistic notion that there is right and wrong and that the latter should be resisted. Subsequently the practicalities of life have dictated that some modification of that viewpoint was required, but what emerged from the analysis of psychometric models, referred to below, is that the core principal of focusing upon the aim of achieving perceived changes for the meeting of common needs is important and this is expanded upon in Chapter 5.

So what are my core competences? It would be easy to describe these as rooted in accounting and finance. However, there is an argument for suggesting that it lies in an ability and desire to absorb, apply and transfer information and knowledge. The reality is that this latter interpretation can be seen as a tool in both the business world, where clients are assisted with their financial management, and academia where students are assisted with their own theoretical and practical development.

What are my core characteristics? Assessments using a variety of different psychometric testing techniques have been employed to determine these with relatively clear outcomes.

In terms of Myers Briggs I have an ENTJ indicator, for which types the definition is that such individuals are frank, decisive, leaders in activities who develop and implement comprehensive systems designed to solve organisational problems. They tend to be good in anything that requires reasoning and intelligent talk, such as public speaking and are usually well informed and enjoy adding to their fund of knowledge (Myers 1990).

My Enneagram Personality Type 1 is defined as a reformer, who at the highest grade of the healthy level can have an intense sense of right and wrong, underpinned by personal religious and/or moral values and seeks to be rational, reasonable, self-disciplined, mature and moderate in all things. Type 1's will strive to be principled, fair, objective and ethical. However, at less healthy levels they exhibit characteristics of dogmatism, self-righteousness, intolerance and inflexibility (Baron and Wagele 1994).

Of course such psychometric guides are not cast in stone, but can present a general guide to my core personality and character, that is what is available to work with in my life, under both favourable and adverse circumstances and moods, which will include the undertaking of this project. Such work can also be invaluable in helping to understand the nature of others whose lives and work formed part of my overall DProf study.

With my Myers-Briggs Typology Indicator suggesting an ENTJ profile (sometimes referred to as the Field Marshall type) and the Enneagram Type 1 indicating a wish to enlighten others, it was not surprising that I eventually positioned myself within the advice sector.

In the twenty years before starting my MBA I thought I could see a need for change and indeed had expressed that need amongst fellow advisers. Given that the need (a change from remuneration by commissions to fees in the interests of clients and our own businesses) conflicted with the culture of the industry I found it difficult to articulate how such a change would be of advantage. The MBA, which I regard as a working document, not simply as a certificate on the wall, was the stepping stone which has enabled our business to formulate and employ a practical working model of an alternative way of conducting a financial planning practice that placed fees at its centre.

However, to attempt a reframing of any organisation without taking into account lessons offered from the past would be to raise the possibility of exchanging one latent failure for another. My earliest career experience demonstrated the staid, but successful methods employed in the banking sector of the time. Many, perhaps most people found that they could carry on their normal lives without the assistance of a bank account, so banks concentrated on a much narrower customer base. Those customers understood that they had to pay a fee for the management of their accounts and interest on loans advanced by their bank. Lending to the bank was rewarded with interest paid to the depositor. The illusion of free banking was not offered; the charging structure was uncluttered and relatively transparent.

In planning the long-term future for our own business the past experience of the banking sector suggested that we too should focus upon a narrow client base, concentrate upon providing a service as opposed to products and charge explicit fees for the work undertaken, which is what we have done.

By itself changing the modus operandi of an organisation without taking account of the contextual changes would be unlikely to achieve sustainability. For the private forestry company, fundamental changes in taxation law and application effectively destroyed their market. For Courtaulds overseas competition rooted in much lower labour costs forced them from the world stage and ultimately every other one as well. Strategic thinking demands that an organisation has in place plans to address potential external changes, something that neither of these organisations appear to have had. It is said that the only constant is change, so to ignore that maxim risks future oblivion.

A fundamental change in the near environment of the financial planning sector is the constantly altering value of assets, rising and falling in a sometimes random fashion. To rely upon such assets as a basis for generating income is foolish and avoidable. If the service provided is advice for which a fee is paid at an agreed rate, changes in asset values, legislation and individual circumstances will not have a direct impact upon the organisation's remuneration; indeed such changes will often generate additional fees.

However, a failure to maintain its knowledge base will be detrimental, so the need to ensure that its human resources contain individuals of a suitable professional and academic standard will be paramount, for it is impossible to charge for advice if that advice is flawed or incomplete. Because banks moved into the wider financial services area without first having recruited personnel with appropriate qualifications and understanding and moved from a service to a sales culture they ultimately paid and continue to pay substantial penalties, both of a monetary and reputational nature.

So my past working experience suggests that clarity of purpose, an ability to address change and potential change and transparency of charges are essential to maintaining the long-term future of any independent financial planning organisation. The operating framework for our own organisation was constructed in recognition of this.

The avoidance of doubt amongst consumers with respect to the meaning of words and phrases used in financial services is also important. To this end Appendix 1 provides a glossary to assist understanding of the thorny issue of the intended and interpreted meaning of words and terms employed.

With all of these thoughts in mind we now move on to reflect upon the views of others who are involved as stakeholders in the independent financial planning sector.

Section 2 – Methodologies and Methods

Chapter 2 – Project design: Methodologies and Methods

Field Marshall Helmuth von Moltke stated that “No plan of operations extends with certainty beyond the first encounter with the enemy's main strength” (Hughes 2009). In this observation he was reflecting upon Clausewitz’ remarks concerning the tension of interfacing the theory underpinning a plan with the reality of applying that plan. It would, therefore, have been a colossal deceit on my part to believe that my overall plans for the undertaking of this project would be capable of surviving intact, once the application of the plans had been commenced in the form of engagement in the research and analysis processes.

Notwithstanding this, there had to be a framework in place capable of providing a broad pattern of guidance to assist the development of the project whilst at the same time being flexible enough to adapt to the changing contexts and unexpected perspectives, which would arise during the gathering of data and information. Indeed, it would have been disappointing if one of the most exciting possibilities of undertaking such a project did not emerge, namely the emergence of the unexpected.

It is in this context that my project design sought to engage methodologies’ characteristics rather than their complete frameworks. My early thoughts considered how to gather data and information, which I believed would be vital in the construction and completion of this project, in a manner capable of ensuring the robustness and reliability of the outcomes and these were encapsulated in the following diagram.

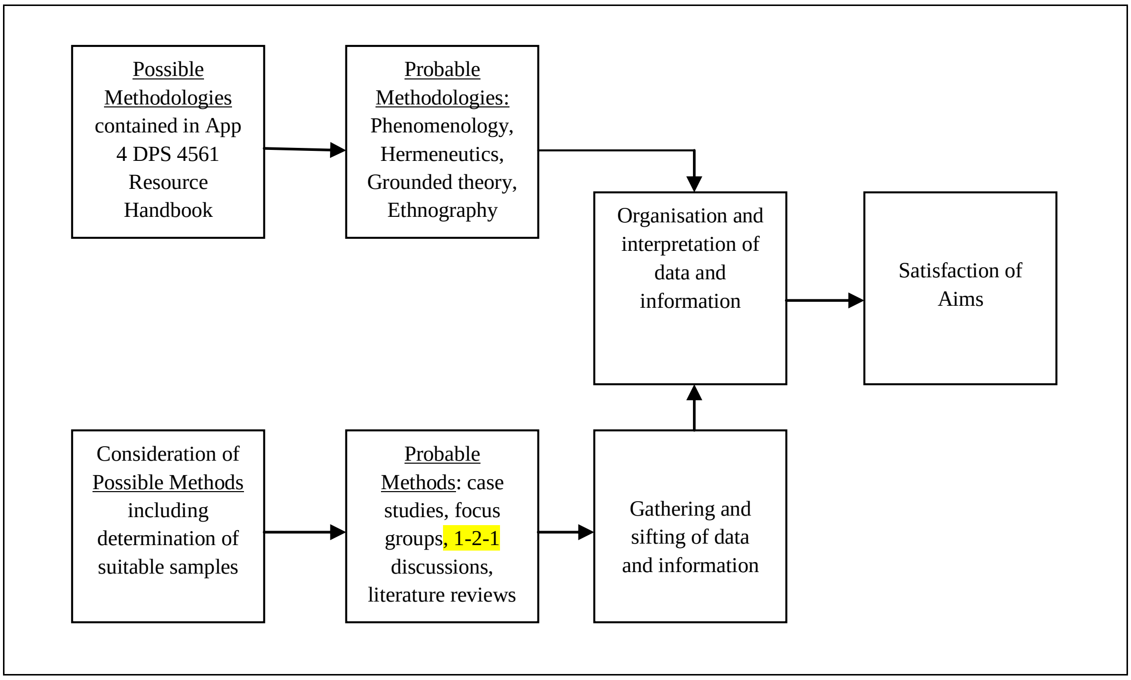


Figure 2 - Depiction of the Application of chosen Methodologies and Methods (Cawdell K E 2015)

The aims, objectives and outcomes referred to in the project planning phase are presented in diagrammatic form overleaf and these emphasised the need to focus upon the overall purpose of the project, namely identifying a method capable of assisting the survival of financial planning consultancies.

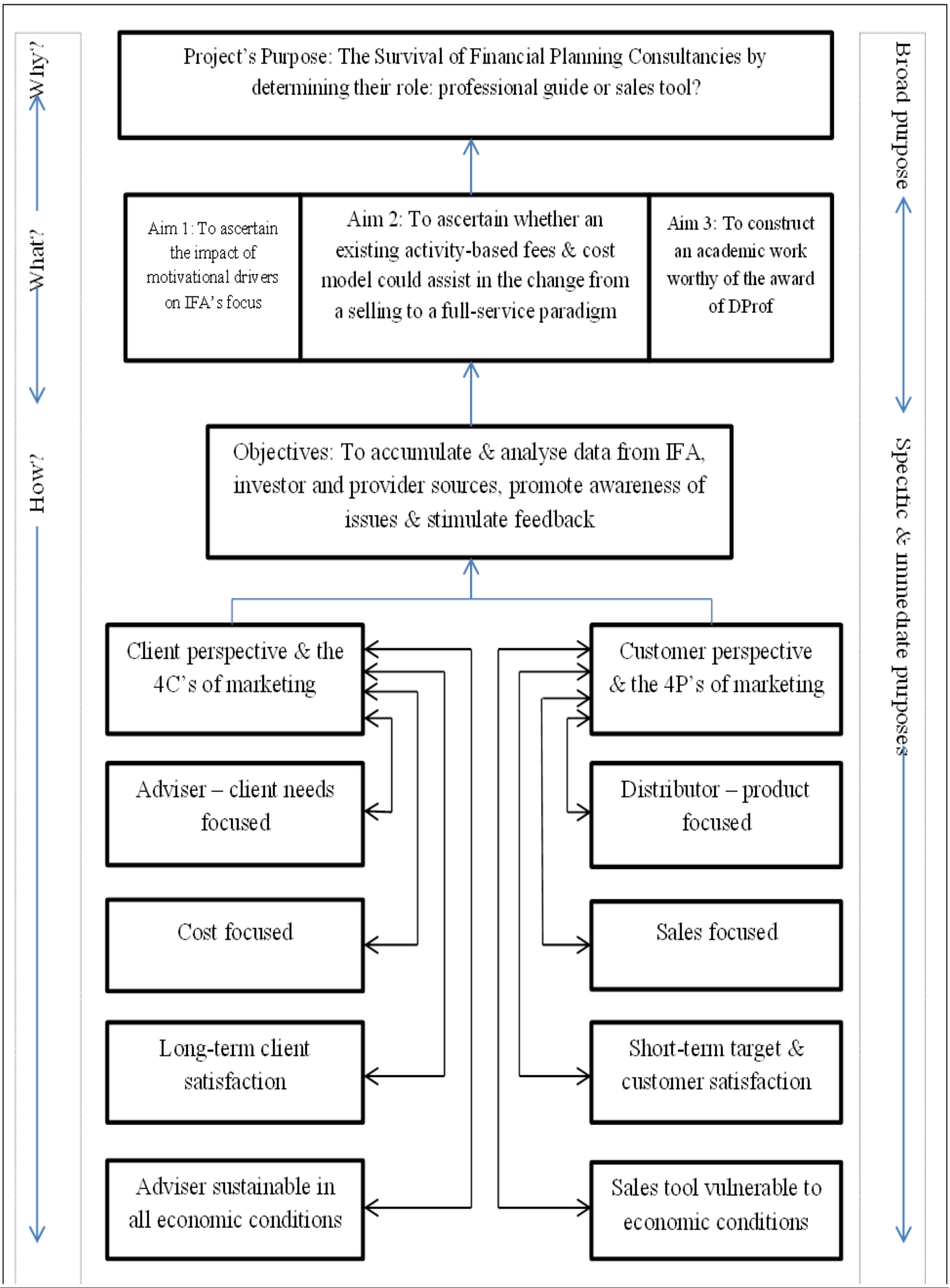


Figure 3 - The Pyramid of Purpose (with acknowledgements to Paton, Cameron & Preston 2000)

The Project's Purpose

At the apex of the aforegoing diagram was the project's purpose. It must be admitted that when commencing this stage of my research programme I had not thought in terms of providing a purpose. Nevertheless, as I worked through the early stages of this programme it became apparent that without a purpose the project lacked focus. In spite of this recognition that purpose evolved in parts, with the present outcome embracing, what I believed would be, contributory issues. It was admitted and recognised that it was perfectly possible that the purpose could change again, although any significant alteration would lead to substantial changes throughout the various elements leading towards a successful conclusion.

My choice of purpose was embedded in my understanding the responsibility of the senior manager in any business, which is firstly to ensure the survival of the organisation (Donaldson and Lorsch 1983). This understanding emerged during the completion of my MBA and as such has work-based roots, because that research was based upon the practice in which I worked. What I brought to that practice was and remains my personal ontology and a perspective which, because of my career journey, has not been imbued with the former or existing cultures within the corporate insurance sector (Janis 1972). This may be seen as both a boon and a burden given that some might argue that I have limited understanding of the way in which the industry works and the genesis for its rationale. Conversely others might accept that not being immersed in the ways of such a set of paradigms will provide opportunities for some lateral thinking.

Clearly, in constructing my project it was going to be important to bear in mind that aspects of my personality should be controlled with a view to ensuring that my psychometric profile, referred to in the introduction to this work, did not create unnecessary tensions as a result of my natural adversarial approach not being sufficiently restrained.

The Main Aims

In support of the project's main purpose three aims had been selected and these were identified in the diagram. The first of these sought to ascertain whether motivational factors adopted by or imposed upon advisers could have a direct or indirect impact upon the longer term survival of their organisations. In addressing this element of the project, I believed that it would first be necessary to identify what motivational drivers existed within the community of practice, before attempting to assess whether a positive correlation with survival rates could be observed and whether this could be interpreted as evidence that a cause and effect relationship was present.

It was intended that the research for this element would be undertaken by engaging three main clusters, namely focus groups, one to one discussions with representatives of consumers, distributors and advisers and by undertaking a literature review of past and current thinking. Given that the quasi-professional bodies now have education departments, I also intended to engage in one-to-one discussions with their representatives, inviting contributions of both an academic and professional nature. It was recognised that there was a possibility of perspectives on the subject changing as a result of the social and geographic context of the contributors and with this in mind I was to seek contributions from focus groups situated in various diverse parts of the UK.

My general observations of the average IFA's perspective on the development of the profession noted that there was a continuing discussion on the relevance of education and structured learning as opposed to the worth of experience in the financial advice sector. This suggested that there would be considerable opportunities for considering and researching from a phenomenological angle, with hermeneutic approaches being applied particularly with regard to the literature review. In undertaking the analysis of the work of the focus groups I intended to employ grounded theory techniques, but accepted that alternative approaches of a more quantitative nature might be required to assist that resolve.

I was also aware that in my role as a practitioner and an academic, intertwined with my belief that the fees based approach was to be favoured, I ran the risk of influencing the nature of group discussions. Therefore, I intended inviting a colleague with a social science background to comment upon the discussion topics offered to members of focus groups and those individuals offering responses through one-to-one meetings.

The second aim was to ascertain whether an existing activity-based fees & cost model could assist in the change from a selling to a full-service paradigm.

Quite apart from the level of importance I believed this model represented, the relevance of this second aim with regards to supporting the project's purpose was to act as a triangulation tool. Because it is already in use and has been tested under circumstances of both economic expansion and decline, it was thought that it could be used as an alternative benchmark and set of criteria when observing, correlating and analysing data acquired during the satisfaction of the first aim. In this respect it should have been able to provide a challenge to the generally applied existing practice, whilst at the same time being challenged itself.

However, in terms of its relevance to the aim of providing an alternative to the popular sales based approach, this activity-based fees and costs model was acknowledged to be hampered by the context in which it is presently situated, namely within one small financial planning organisation. Nevertheless, it was expected to provide an opportunity to consider whether those financial planning organisations which currently run on a fees-based model, have, in addition to all-round experience, professional qualifications equivalent to a first degree. Where this was not the case I was interested to discover how such advisers would be able to charge fees without providing a holistic level of advice rooted in a broad knowledge of the Byzantine complexities of the financial sector. In other words, would that be ethical?

The third aim, namely to construct an academic work worthy of the award of a Doctorate in Professional Studies, recognised that whilst this is a work-based project, serving the twin demands of both a practical and academic nature must be key. To this end I expected to employ the experience gained in acquiring my MBA, which whilst being academically framed, applied many of the models, concepts and theories which it introduced, to the building of the activity-based fees and costs framework used in our own organisation. In turn, the wealth of data, information and knowledge which has been carefully catalogued since the MBA programme was commenced was expected to inform this current work-based project with pertinent feed-back and perspectives.

Objectives

At the outset I recognised that to satisfy the aims of this work I would need to accumulate and analyse data from IFA, consumer and product provider sources. To achieve this I would need methodologies capable of aiding the interpretation of the relevant data, information and knowledge gathered. Effectively, this is the “how” element contained in Figure above and represents the more specific and immediate purposes.

Two major approaches to testing and evaluating strategies have been used recently of which the first examined them on the basis of their suitability, acceptability and feasibility (Johnson, Whittington et al. 2011). The second approach suggested that it is probably impossible to demonstrate conclusively that a particular business strategy can or will work, but that it could be tested for the presence of flaws (Rumelt 1998).

Rumelt's work further considers whether an organisation can capture any advantage its strategies acquire for a long enough period to reap adequate rewards.

In gathering data for the aforementioned assessment through the medium of focus groups and one-to-one meetings I posited that the basis for shaping the strategies most suited to the financial planners' purpose and aims would emerge. Furthermore, those strategies would have been identified as consonant, feasible and acceptable by the very stakeholders wishing to enter the purely fees-charging arena. In effect those currently aware of the need for change will have provided the arguments in favour of the transition. The testing and evaluation of the results of our own fees and costs model could then be compared with the new research material for consonance and variation, with the outcomes being used as a basis for reflection and modification.

For the financial adviser our own fees and costs model suggests there will be operational consequences, with adjustments required to processes, mind-sets and abilities to ensure that strategic objectives were capable of being met (Pettigrew and Whipp 1993). Change management encompassing superior leadership attributes would be an essential requirement.

To assist this process I decided to employ two marketing models relating to the marketing mix as devices to reveal various stakeholders' attitudes to the mechanics of the market and their position within it. The older and much better known model is referred to as the Four P's of Marketing and looks at the marketing mix from the perspective of the marketer (Borden 1964). In essence, it is considering the product, price, promotion methods and placing of the product in such a way as to maximise its selling potential. In short it is about the selling of the product. By comparison, the more recent model, the Four C's, considers marketing from the consumers' perspective, whilst following the framework produced by Borden (Lautenborn 1990). It is about ascertaining the needs of the consumer and how they may be satisfied. The comparisons can lead to some very distinct differences being disclosed of the mind-sets employed. The following table of comparisons serves to illustrate the essential differences of the two approaches.

Borden's 4 P's Product–centred Concept		Lautenborn's 4 C's Consumer-oriented Concepts	
1	Product - this means the product's (or service's) quality, the functions, the features and benefits of its design plus packaging, guarantees and level of after-sales service. Choices can be made about any of these aspects.	1	Client's needs, wants and expectations from the product or service
2	Price includes recommended prices to end-user customers, distributor's trade prices, cash discounts, bulk discounts, terms of credit.	2	Cost and savings/benefit to the client
3	Promotion means the promotions mix or the communications mix. This mix includes advertising, sales promotions, publicity, direct mail, exhibitions, display, packaging, selling and even word-of-mouth.	3	Communicating the identified benefits to the client in the context of the satisfaction of their needs.
4	Place means where and when the customer buys and consumes the product or service. Place is sometimes referred to as marketing channels, physical distribution, logistics or location.	4	Convenience of acquisition and application of the product or service and how this will enhance client's experience. Continuity and regularity of support and advice beyond the initial contact
Comparison of Attributes of the 4P's and 4C's Approach to the Marketing Mix With acknowledgements to the work of Kotler P et al (1999)			

Table 4 - Comparative Marketing Mix Attributes

Perhaps one of the more interesting observations regarding the two approaches is that the one addressing client/customer perspectives appears in various existing research documents in relation to e-marketing. By extension, it focuses upon pull forms of channel distribution and assumes a pattern of disintermediation. Evans and Wurster, in their book "Blown to Bits" suggested that with the arrival of the internet and its ability to provide substantial information on product ranges, consumers would be inclined to transact directly with the supplier or manufacturer (Evans and Wurster 2000).

However, they also suggested that whilst information can be sufficient to guide a potential purchaser in many areas, where the potential acquisition was one requiring additional knowledge and expertise, because of its perceived complexity and/or cost, the assistance of competent advisers would be essential. Therefore, if the role of an intermediary or broker is diminishing, the need for a reliable, competent professional adviser and guide could be increasing. This is emphasised in an article in Money Marketing, "Government's proposed pension guidance is missing one crucial ingredient: advice" (Cicutti 2014)

Critically these marketing-based concepts and many like them rely for their existence upon a comprehensive knowledge of customer/client behaviour (Armstrong, Kotler et al. 2012). My experience, and that of others, has determined that when it comes to financial services this is very difficult to unearth, at least in a conclusive way. In turn this has highlighted the need to seek alternative methods of knowledge-gathering to ensure concrete application of chosen methodologies.

If one of the objectives was to ascertain whether financial advisers saw themselves as really addressing their clients' needs or the distribution of a particular range of products would this inform the aims of this project and if so in what way or ways? By extension, the analysis of the data and perspectives of financial advisers might determine whether their aims were cost or sales focused. Where it was cost/benefit focused, according to Lautenborn, the adviser would be seen to be client focused, but where it appears that the adviser is concentrating upon achieving sales targets they would be seen to be product focused and primarily self-serving.

In an increasingly competitive market it is necessary for smaller organisations not only to determine which particular elements of the market to concentrate upon, but to avoid attempting to compete with much larger distributors on the basis of price (Porter 1980). Therefore, it could be argued, a financial adviser who is aware of the nature, cause and extent of each cost within the business will be in a much stronger position to determine the fee to the client, by emphasising the differentiated service being offered. Furthermore, the argument goes, where this element of the relationship has been discussed at an early stage and agreement has been reached, not only on the level of fee but its validity, a long-term client relationship based upon client satisfaction can be established. Conversely, where the relationship with a client or customer is rooted in the sale of a product to the customer with very little after sales service being available, the relationship with the customer is likely to be short-term, which is consistent with the aims of the adviser being similarly myopic. The former serves the aim of this project, whilst the latter does not.

Planning for the gathering of data, together with its analysing and interpreting is one thing; the reality is quite often another so it is important that a synergy and flexibility is maintained between these factors. In constructing a framework designed to support the aims of this project I compiled a menu of the possible tools which appeared to be available to me and Figure 2 set these out. The components of that diagram were drawn from both my personal experience of past research and from wider reading of the literature available on the subject (Holliday 2007).

In the past I have used questionnaires and focus groups as methods of extracting opinions. As both a student of an academic and professional nature I have also been engaged in the process of dissecting case studies to determine what it is they illustrate in terms of what is required for this project. The guiding principle has to be whether chosen methodologies are suitable in terms of satisfying the project's purpose and its underlying aims.

Returning to Field Marshall Helmuth von Moltke's observation that "No plan of operations extends with certainty beyond the first encounter with the enemy's main strength", I am not suggesting that contributors were effectively enemies of mine or one another, neither am I suggesting that they were always allies. Consider the change of content in the boxes in Figure below, compared with Figure 2; engagement with the main strength, in this case the cultures and paradigms of the selected groups of contributors, required some serious rethinking with regard to both methodology and method.

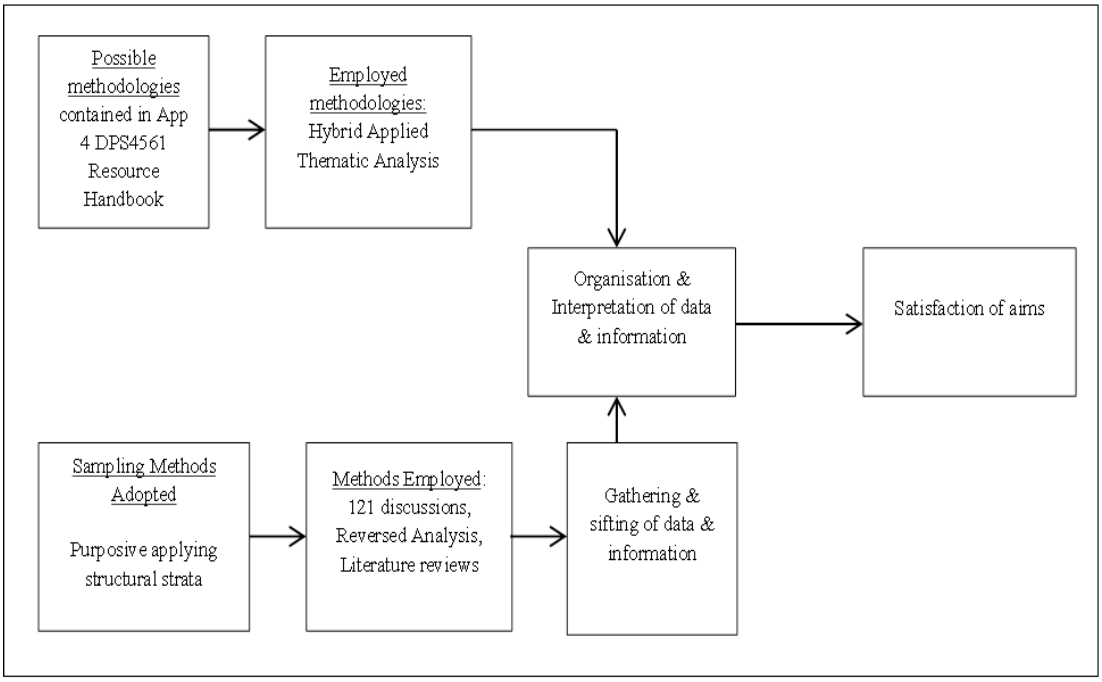


Figure 4 - Depicting the Chosen Methodologies and Methods (KEC 2014)

The raw materials for this research are the opinions expressed by the contributors. The planned method of acquiring most of this was by using one-to-one interviews as well as, for financial advisers, focus groups. Literature reviews and case studies were also to be employed.

Upon being advised of the purpose of my research almost every independent financial adviser approached agreed, and in many cases were very keen to participate. Given that it was with this group that I commenced my active enquiries a positive glow shone upon the probable future robustness of my arrangements.

The process took the form of an initial contact by telephone, using a list drawn from the public membership records of accredited financial advisers of the Personal Finance Society. (To appear in this list members had to be and remain authorised by the regulator to provide financial services). Where advisers agreed to contribute a letter of confirmation was sent to them, confirming the appointment date, venue and the menu of possible discussion topics. The letter also confirmed that the entire meeting would be recorded using audio equipment and reminded the contributor that their right to withdraw from making the contribution existed up to the point that publication was commenced. A copy of the verbatim transcript would also be available should they request it.

At the same time as I was making contact with individual IFAs I commenced putting into effect my plans for arranging focus groups of IFAs, starting with those listed as holding chartered status and operating in the area around Exeter. In this case the majority of potential contributors declined to be involved, but six accepted with two more saying they could be interested nearer the time. Each one was sent a confirming letter containing the menu of discussion topics referred to earlier. A meeting room was booked at the Friends Meeting House in Exeter and a fortnight before the date of the meeting a further letter was sent confirming the arrangements. I travelled to Exeter for the meeting on what proved to be a fool's errand – not one person attended and none apologised. In terms of ethics, professional or otherwise, this proved to be a low point. In terms of cost/benefit the clear message was to abandon focus groups as a method of information gathering and concentrate my efforts in the more fruitful direction of one-to-one meetings, which was the decision I made.

Given the successful outcome of the focus group arranged in connection with the development of the BSc Finance degree referred to in the remarks concerning my journey towards undertaking this project in Chapter 1, this was a particular disappointment.

In respect of arranging meetings with financial services consumers the meetings held exhibited the same characteristics. These were that contributors had very few opinions to express, even with the aid of the discussion topics and often had little or no idea of what the financial advice and planning sector offered. So I resolved that the idea of offering a common set of topics as the basis for determining the opinions of the three different groups of stakeholders would have to be reconsidered and a period of reflection would be appropriate.

This apparent impediment was frustrating, but paradoxically was the source of greater insight and led to my tackling the issue from another, but related, data source.

Whilst allowing the process of individual meetings with private individuals to lay fallow I read a letter in the “Financial Planner”, the organ of the Institute of Financial planning, written by a chartered financial planner, David Ferry. He was in the process of studying for his master’s degree in financial services. His office was in Birmingham and his letter indicated that his research sought to know what service it was that individuals expected to receive from an IFA and how much they were prepared to pay for it. I arranged to meet him at his office for a discussion.

His adopted research method was that of distributing a questionnaire inviting three hundred and eighty-five respondents to give their written responses to his enquiries. He advised that the method of distribution was through a network of personal contacts, both business and social, requesting recipients to complete it themselves and also to pass a copy of the questionnaire to their colleagues and friends. To this extent there was a narrowing of the social grouping likely to respond, if they responded at all. I do not have access to the questionnaire, so am unaware of the extent to which his personal ontological characteristics might have been contained within the shaping of the questions.

During our meeting Mr Ferry suggested that before distributing his questionnaires he had been expecting responses that would be expressed in terms of a clear payment level and service requirement trend. The reality was that on the basis of the seventy-two responses he had failed to identify a discernible pattern of any sort. Employing a professional statistician to analyse the results for him had not advanced his cause at all, apparently.

He confirmed that he was wedded to the quantitative approach, clearly having dismissed the possibility of a qualitative model being employed. It appeared to me that his research data might well have lent itself to the scrutiny of the Applied Thematic Analysis methodology, to which I refer later in this chapter, particularly as the data produced from the style of his triggering questions had sought written responses as opposed to tick boxes.

During our conversation I introduced Argyris’ Theories of Action concept and suggested part of his problem might be that potential clients might not be aware of the full panoply of services available to them and were, therefore, not in a position to articulate their requirements or expectations (Argyris 1976). From this I deducted that a practical approach would be to determine why they had first come to discuss their issues with their IFA and then compare this with what they actually did. This approach is based upon the premise that following the completion of the initial fact-find an adviser should be in a position to direct their client on their actual range of needs and that this direction may, but not necessarily will, coincide with the client’s espoused needs.

From my perspective, therefore, I decided that inverting the process of enquiry with consumers by analysing the answers first and then comparing these with the original espoused requirements could prove very fruitful and by determining to follow that course I achieved what I believe to be significant results.

To this end the files of fifty of our own clients were interrogated. What this revealed was that the original reason for the initial contact rarely included more than two issues, but what clients had subsequently completed demonstrated the requirement to address some eight separate shortcomings. Within the fifty files twenty-five different needs were identified. These are discussed later along with the outcome of a further discussion with David Ferry and more research undertaken by the Personal Finance Society in a similar vein.

The practical results of these deliberations about the methodologies and methods to be adopted were invigorating. However, my original thoughts concerning possible methodologies underwent considerable change. The underlying cause for this was that whilst concepts such as grounded theory analysis and ethnography were attractive from an academic perspective, this project concerns work-based practice and development and in the work place models, concepts and theories have a limited attraction, whereas action is recognised as an asset.

From the 165 hours employed and nearly 86,000 words arising from meetings held with contributors the challenge was to discover a methodology which could be used to interrogate the underlying themes in such a fashion as to be helpful to those within the financial services community, whilst maintaining an academic framework.

After enquiries were made, both within Middlesex University and with many others taking nearly a year, a conversation with Dr Mehmetali Dikerdem resulted in my purchasing a book entitled “Applied Thematic Analysis,” (Guest, MacQueen et al. 2012)

This offered the opportunity for analysing data generated from qualitative and mixed methods research projects in a pragmatic and straightforward way and facilitated the creation of a platform for exploring the influences of morality, ethics and remuneration on the existence, development and survival of the independent financial advice sector. It does this by suggesting that transcripts are interrogated for the existence of main themes and that these are then further dissected for the existence of sub-themes. The results can be used to compare the existence or absence of themes across different groups of contributors, whilst at the same time using these outcomes to determine patterns of thoughts, actions and outcomes within a sector (Ryan and Bernard 2003).

According to the authors the Applied Thematic Analysis approach is a rigorous, yet inductive set of procedures designed to identify and examine themes from textual data in a way that is transparent and credible. Their method is drawn from a broad range of several theoretical and methodological perspectives, but in the end its primary concern is with presenting the stories and experiences voiced by study participants as accurately and comprehensively as possible. It is the essence of this methodology which I have adopted for application to my project, blending it with an element of quantitative analysis where I believe it to be appropriate.

Whilst the methodology comes in many forms, the word-based path chosen was that which is highlighted in yellow in the following diagram. The remaining boxes represent those options offered at each level of determination which were deemed as being less or unsuitable.

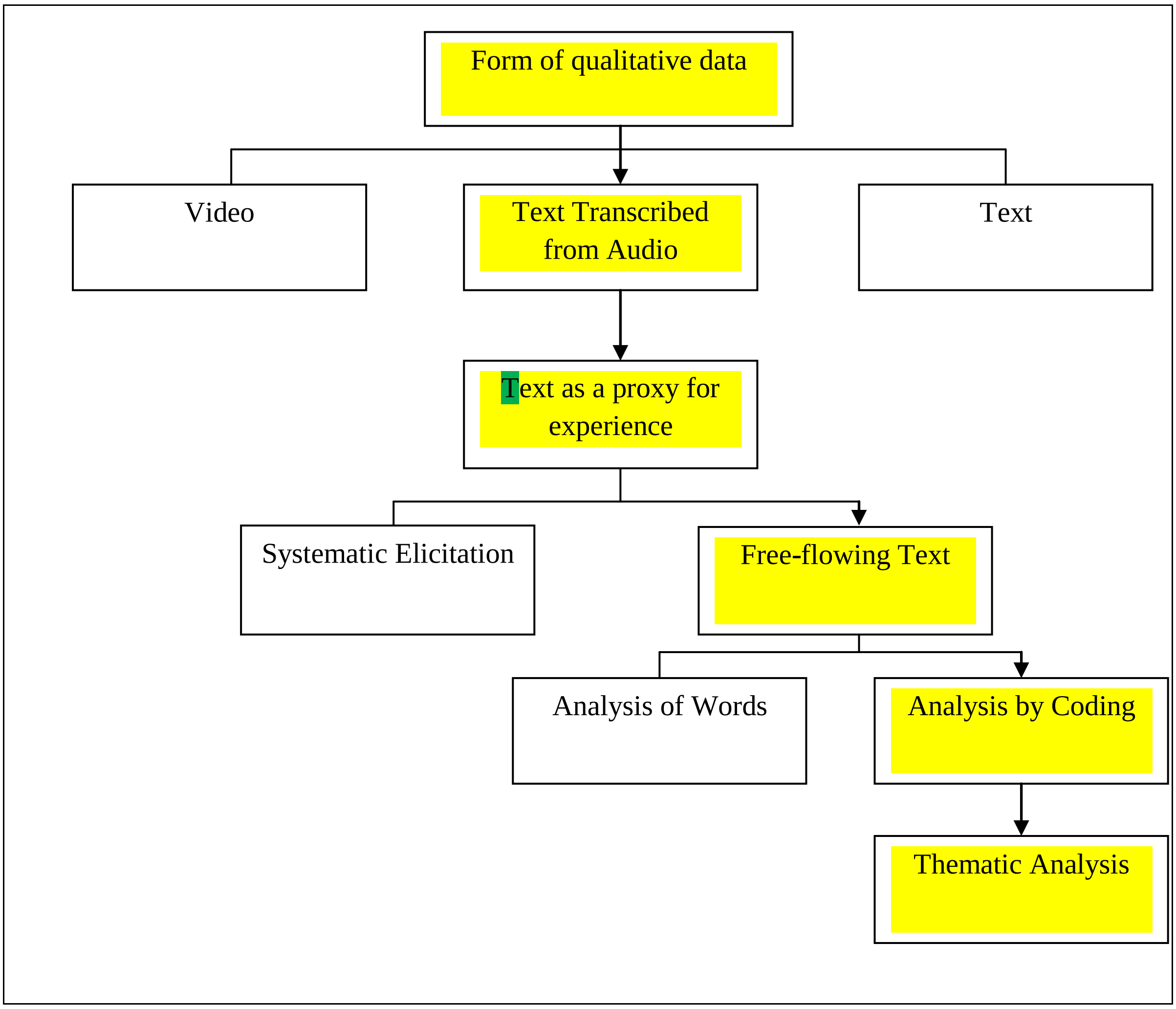


Figure 5 - Chosen Methodological Research Route (with acknowledgements to Bernard & Ryan 1998)

The method I employed commenced, as referred to earlier, with assembling a list of regulated Independent Financial Advisers from the membership list of the largest of the professional bodies, the Personal Finance Society. I expanded this list by adding to it the names of advisers and product providers' representatives that I had met at financial planning conferences and other meetings, with the aim of building a diverse set of contributors. That diversity included gender as well as geography, advisers holding just the benchmark qualification and those with post graduate degrees.

The aim was to gather a body of thoughts, ideas and observations from the contributors by encouraging a perception of relaxed dialogue in which they could be frank, knowing that they enjoyed complete anonymity. I then converted into text the recorded transcripts to provide the raw material for subsequent identification and ordering of themes and patterns of themes contained within the texts.

According to Saldana (2009) a theme may be defined as a phrase or sentence that identifies what a unit of data is about or what it means. That identification process can rely upon the intensity of the phrases repetition, its indigenous typography and/or its silence or absence.
With this definition in mind a framework was designed with the aim of organising the data into general themes and to this end a Code Book was created.

To develop this code book I relied upon the following procedure:

- The establishment of a Code Label which takes the form of a short descriptive mnemonic (4-12 characters) that helps to distinguish it from any other code
- A short definition descriptive phrase (20-80 characters) to capture the essence of the theme or its components
- A full definition represented by a paragraph of 2-10 sentences highlighting the key features of the theme or its components
- An explicit determination of when the code was to be used
- A clear determination of when a code was not to be used

(MacQueen, McLellan-Lemal, Bartholow & Milstein 2008)

The framework took the form of the discussion topics offered to contributors. Following the sorting of the data into general theme codes the process was extended to sub-codes. These sub-codes drew out different sub-strands within the general code and formed the basis for the interpretation of the analysis by way of the diagrams provided towards the beginning of each chapter in Section 3. Sub-themes that occurred frequently have been highlighted in orange. An extract from my code book appears in

However, this methodology could not be employed successfully when the thoughts of consumers were sought, because, as was explained earlier, they were unable to articulate such thoughts with the result that free-flowing text was not created. This is why the approach adopted for consumers was to consider their answers and then compare them with their original questions, before analysing the results quantitatively.

Whilst the employment of two different forms of analysis might be considered flawed, in reality this offered the opportunity to compare the thoughts of adviser and product providers on the role of financial advisers and compare them with the reality of what the consumer needed. It provides the foundation upon which to empower the management process responsible for identifying, anticipating and satisfying customer requirements profitably, usually better known as marketing. It also provided a practical replication of Table 4's comparison of marketing mixes from the perspective of marketers and consumers and a basis for the assessment of the suitability, feasibility and acceptability of particular strategies at work within the sector, referred to in Tables 16 to 33.

The next step, therefore, was to consider the contents and the themes arising from the transcripts compiled following the meetings with contributors and recorded in the following chapters.

Section 3 – The Research Programme

Chapter 3 - The Analysis of the Themes Encountered in this Research Programme

If it is the aim of the former and current regulator to transform the prevailing attitude in the financial services sector from a sales to an advice culture then determining the genesis of the present condition would be useful. That is because changing existing paradigms requires an understanding of from what it is intended to change and to what the appearance of altered state is intended to look like.

It is said that the culture and structure of any organisation develops over time and in response to a complex set of factors. These include the reason for its formation and the manner in which it was created, its primary function including the range and quality of its products and/or services and whether its goals and objectives include long-term survival or growth and development (Mullins 2007). It was also noted that organisations of different sizes will develop different cultures, many of which will result from the need to coordinate activities in a more or less structured fashion. Furthermore differences in location, management styles and the corporate environment can have significant influences upon business cultures.

In this context having an insight into what various stakeholders in the sector might be thinking and doing and how any inter-relationship between them might influence how that transformation can be achieved could be germane in the context of this project’s purpose. Given that the aims of product providers, financial planners and advisers and consumers, whilst being active in the same field, could be different discovering what it is that consumers need and want should be paramount, but determining how and from whom they could obtain it, if at all is also very important. Can the interests of all three elements be satisfied without conflicts of interest undermining that aim?

The themes encountered during my research contained two main characteristics, namely sales based intentions and advice-facing intentions. Because these two business methods are not mutually exclusive Kant’s view that what matters is the intent behind an action, not its outcome, it is the underlying direction of the intention that may provide some assistance in establishing whether substantial or minimal cultural changes would be required to attain both the regulator’s aim and the survival, development and future success of the independent advice sector.

It is with this in mind that I have proceeded with this work, commencing with the perceived function of a financial planning organisation.

3.1 - What is the purpose of a financial planning organisation?

Summary of main themes discussed in this chapter:

- The purpose of a firm both at a general level and at the specific level of a financial planning firm
- Promotion and communication
- The existence and desirability of ethical standards in the financial planning sector
- Structure issues within a financial planning firm
- Attitudes and approaches to training
- Problems of scalability both within the existing framework and under other possible options

Purpose

The economist Ronald Coase asked the question, “Why do firms exist?” He posited that people begin to organise their production in-house when the transaction cost of coordinating production through the market exchange, given imperfect information, appears greater than when undertaken within the firm (Coase 1937). By extension it may be accepted that when the internal transaction costs appear to exceed the costs of those transactions when provided by an outside source the reverse applies. Product providers in financial services appear to have followed the latter course in recent years when addressing the costs of selling their products by dismantling their direct sales forces, abandoning the provision of any form of advice and seeking to distribute their products through financial advice firms, “platforms”, or by direct advertising.

Conversely, consumers appear to have decided that the transaction costs, expressed in both monetary and time forms, of addressing their financial planning requirements personally far exceed the perceived cost of engaging a firm of financial planners or advisers for that purpose.

Firms of any size should ensure that certain functions are undertaken, at least they should if they have any expectation of survival. Much has been written and discussed since 1916 when Henri Fayol articulated his five functions of a manager, but given the apparent paucity of evidence of the application of his guidance amongst financial planning organisations going very far beyond his original seminal work would seem disproportionate. As you read through this chapter on the purpose of a financial planning organisation it may be prescient to consider whether any of the following functions are apparent within the thinking of the contributors:

Planning the organisation's future over the short, medium and long-term
Organising the assembling of the resource requirements identified during the planning process
Determining who and how the identified resources and systems are to be acquired and employed
Controlling actual performance by regularly comparing with the planning framework
Co-ordinating the efforts and outcomes to ensure that the plans become reality

Table 5 - Roles of a Financial Planning Organisation

That they should all be present is the requirement, but you must judge for yourself whether this appears to be the case.

In considering the themes emerging from the topic on the purposes of a financial planning organisation, operating within the community of financial services, perceived intentions in these responses help to determine whether they are reflecting a set of moral principles located in a sales or professional guidance culture, or indeed at all. This is important if consideration is to be given to determining how a shift from the former to the latter is to be achieved and the role that the firm can play in this (Knights, 1994).

The themes and sub-themes identified were as follows, with once again frequently mentioned areas boxed in orange:

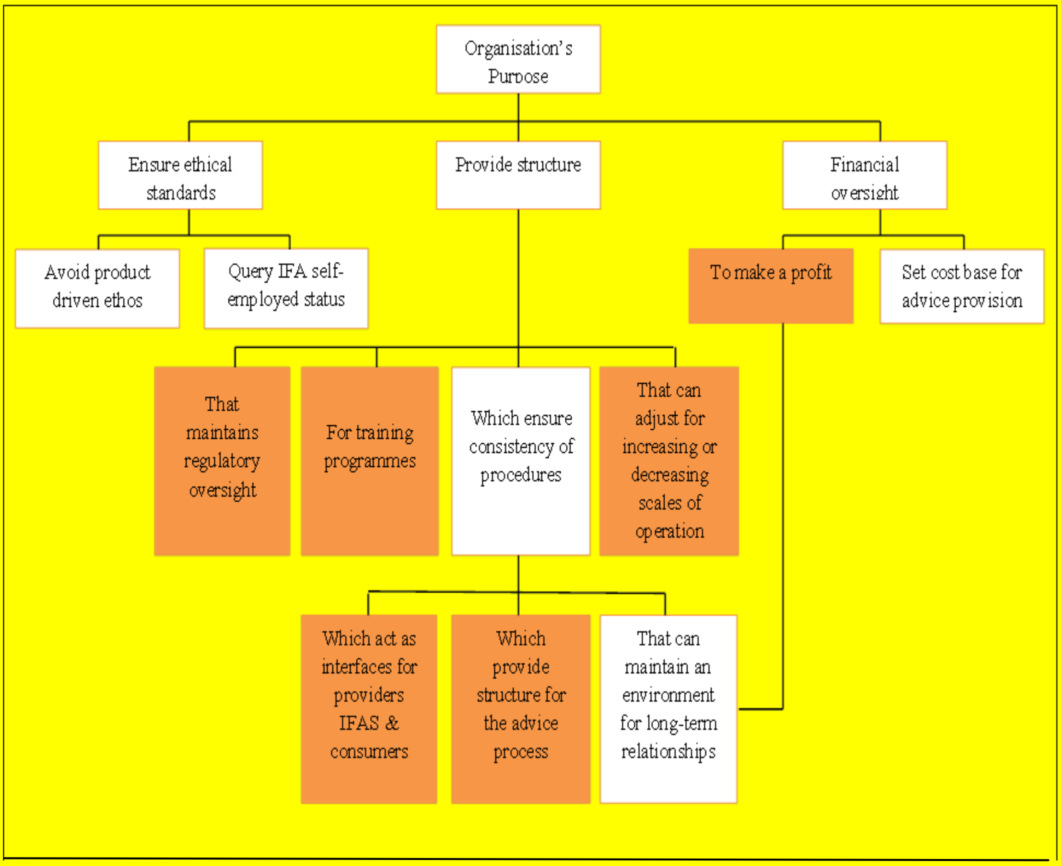


Figure 6 - Emerging Themes on Organisational Purpose and Function

Making a profit was the only one appearing frequently that was outside references relating to structural issues, but is something of an imposter given that with one exception it was mentioned only after being prompted. Clearly organisational purposes involving structure dominated the responses, representing seven of the eleven present; ethical issues were in the main ignored. So firstly, I will address the aspect to which no-one contributed in a way that suggested that they believed financial planning firms had any responsibility for setting the direction of its moral compass, the maintenance of ethical standards within the firm.

Ensuring Ethical Standards are Maintained

Immanuel Kant's (cited in Law, 2007) primary moral principle is that what matters about an action, so far as moral worth is concerned, is the intention with which it is performed – the outcome is irrelevant. The term he used to describe this concept is the categorical imperative, that is, we have certain moral duties that are forced upon us by reason alone. According to him genuinely moral principles have this categorical character – our moral duty is do not steal, not do not steal if you wish to avoid being caught.

His second key moral principle is to act in such a way that you always treat humanity, whether yourself or another, never simply as a means, but always at the same time as an end.

Both you may argue are high-minded principles, but set in the context of the work “Leviathan” belonging to a (powerful) state or organisation brings huge benefits with regard to security and safety and as importantly creates an environment in which contracts can be kept and commerce can flourish. Thomas Hobbes’ arguments were that without such organisation chaos and anarchy would reign and animal instincts prevail. As such the need for the drafting of moral codes serving the majority of those embraced by that society or organisation become crucial for framing their required conduct, which in turn, through the power to enforce compliance, aims to ensure the satisfaction of that community’s aims (Hobbes 1928). Kant’s contribution to this is to offer a particular ethical framework for this – there are others such as the utilitarian viewpoints (Bentham 1879) (Mill 2007).

It could be suggested that an organisation labelling itself as financial advisers or planners should either provide that advice and/or planning service over the broadest landscape, or be completely transparent by admitting that their main focus is on the selling of investment products. If the prefix, independent is added to that label then making clear what form that independence takes should also be an essential requirement in ensuring that room for misunderstanding the organisation’s role and capacity for undertaking it is absent.

The Oxford English Dictionary’s definitions for the word independent are:

> 1. *Free from outside control; not subject to another’s authority:*
>
> 2. *Not depending on another for livelihood or subsistence*
>
> 3. *Capable of thinking or acting for oneself*
>
> 4. *Not connected with another or with each other; separate*

For many working in the sector it means, *“Not directly employed by an insurance company,”* which is not the same thing at all, failing specifically on OED definitions 2 and 3 and conceivably for some firms on 1 and 4 as well.

They believed that the role of the financial planning firm includes acting as an interface, where required, between their client and an appropriately chosen supplier. Just how ethical then is the description, Independent Financial Adviser?

As one accountancy body put it,

> *"Advice should not automatically be related to products, but could include the provision of cash flow and budgeting frameworks, both of an immediate nature and beyond retirement. The products of insurance companies and investment firms can be sourced to provide part of the solution, but should not simply be seen as the solution in itself,"* (Baxter, 2012)

One observation on the status of an independent financial adviser who works under the direction of one firm, but agrees with that firm to advise H M Revenue and Customs that he or she is self-employed, cuts straight to the heart of organisational ethical standards. By encouraging this deception the firm avoids payment of the employer's element of National Insurance Contributions, but in doing so has effectively separated the adviser from the enjoyment of various state benefits, including, until recently, the additional state pension. Given that the adviser usually derives their continuing regulated authority to conduct their business through the employing firm it questions whether the entire basis for claiming self-employed status is sustainable, when the fundamental tests for this are not completely satisfied (For example can they engage sub-contractors to undertake work on their behalf, or do they supply all of the equipment required for their work?)

The point is, if a firm is prepared to engage in questionable activities of this nature, does this effectively undermine any claim it may wish to make regarding its integrity and if it does should that firm be allowed to continue operating in an area as sensitive as advising on other people's finances when its fundamental ethos appears flawed?

If it is, then how are key issues such as conflicts of interest ever to be settled?

The Provision of Structure

Setting aside the apparent belief that the purpose of a financial planning organisation is not deemed to include functioning in an ethical fashion, consideration of the most frequently raised comments appears to imply that providing a structure which maximises the effectiveness of advisers seems worthy of interpretation. Much of this element of structure was capable of being grouped together under the general description of ensuring consistency of procedures, whilst not necessarily ensuring that those procedures facilitated alignment of tasks with required objectives (Beer, Eisenstat et al. 1990).

Some saw this as a continuation of the role of the broker/middleman, bringing together a buyer and a seller and being remunerated for the service. Others preferred to see it in the role of creating an environment to facilitate the delivery of added value to clients on the basis of an agreed service for an agreed price. One IFA went even further by saying, "*The function of the advisory firm is to give structure to the adviser process to ensure that the client's best interests are served, to ensure that your advisers are meeting all the regulatory requirements in training and competence and also from a process point of view you should ensure that your firm is working in the same way in every department. So I think that for me it's about process, it's about policies, it's about compliance, governance and structure around the adviser process and to ensure that at the heart of that is the client and I think that is the most important aspect. As a by-product of that you should also, if you've got your structure and your process and everything else right, you should also hopefully be ensuring that you are a profitable organisation.*" (IFA5)

This contributor clearly makes reference to Kant's principle, albeit indirectly, by holding that the firm's clients should be at the heart of the adviser process.

It was noticeable, however, that in the majority of responses scant mention was made to the dependent relationship with the product provider, despite the fact that, as we will see later, this is the main mechanism in the firm's method of operation.

Where specific mention is made on the relationship between product provider and IFA firm it is by an IFA contributor railing against the practice of providers contacting clients directly to undertake what they refer to as cross-selling of products.

He put it in this way,

"In the last couple or three years the life offices have been doing some naughty things that we don't like such as writing direct to our customers, not keeping us in the loop, dealing with things direct and not telling us, so that when we come back to the customer we find that it's already been done.

Our relationship's with our clients – the client relationship isn't with the life office, it's with me and that's the attitude that we've taken over the last two or three years because it's happening day in day out with us where the life offices do not understand that if we hadn't done their business in the first place 10 years ago they wouldn't have that policyholder and we look at it you know that they are the policyholder of the life company, but they are my client, not the life company's." (IFA7)

In effect that IFA was challenging the concept of the way the value chain works as opposed to the way he believed the value chain ought to work. From the IFA's perspective a much clearer relational structure should be in place to delineate and agree on the appropriate roles for the provider and IFA and how they inter-relate. (The relationship between an IFA and the client is already set in law in the form of the Financial Services & Markets Act 2000)

The trade press regularly confirms this questionable practice by product providers, but does it interfere with an IFA firm's attainment of its purpose and if it does how do they propose to tackle it? No-one offered an answer – railing against it was as close as it came to challenging the practice.

However, another adviser made clear how they saw the relationship between themselves and IFA firms:

> *"I think, obviously from a provider's point of view they're an integral part of the business model and we look to get our products out, distributed to the general public, so very much an integral part of how we see a provider's business working really. As well I would probably say it's quite a wide sort of remit, in terms of obviously financial advice and the role that firm takes so in many ways especially from a provider's point of view, obviously we are competing with other providers to try and get our products to the fore and products of choice, but I guess from a financial adviser's perspective" (PP2)*

These remarks do not suggest that the IFA firm is seen as a customer, entitled to all the consideration usually available in a supplier/customer relationship, but as part of the provider organisation's distribution model, a wholesaler as opposed to the consumer's representative (Peppard, 2000). This last point is important because the Financial Services and Markets Act (2000) directs that the IFA is legally obliged to represent and act in the bests interests of the client, not simply to act as a middleman between supplier and consumer, which is a restatement of the position in English Common Law (HCCL, 2012).

Nevertheless, the practice raises a question over the general and apparently emerged strategy of most financial advice firms which suggests that they operate as sellers of financial products and supplement the process with the provision of related advice. That they could and perhaps should operate on the basis of providing advice that is sometimes supplemented by the provision of financial products was not present amongst the observations of any of the contributors. The former practice means that adviser firms attempt to compete in the same area of operation as much bigger and financially stronger players in the form of insurance companies, whilst the latter provides a platform for differentiation and the justification for charging a fee.

The latter enjoys the benefits of a focused differentiation strategy separated from the control of their current suppliers and, as the comments above confirm, their major competitors, whilst the former bears the hallmarks of a David and Goliath clash unaccompanied by a biblical outcome (Porter 2008).

Training Responsibilities

There was little dispute on the need for firms to be responsible for the arranging of training programmes. How that need was to be met and for what purpose was rather more diverse, however. One IFA considered that because there are a number of different roles within a firm, such as the client facing advice/direct sales role, support functions, potentially personnel functions and managerial functions each should expect to be part of that overall training programme. However, he felt that where the adviser gets eye-to-eye with the client, the employer has a duty and responsibility to monitor the advice and ensure the adviser has the correct skill sets, whether that be soft skill sets or technical knowledge, to deliver the level of service that is being promised to the client and to facilitate and to ensure that the adviser maintains them.

In his pronouncements this adviser made clear that training was a vital tool in ensuring that client expectations could be met, whilst also being aware that other non-client facing functions within the organisation also needed to be incorporated within a training syllabus.

Others referred to the need to demonstrate the existence of continuous professional development with an eye to the demands of their professional bodies, who in turn are trying to justify their role as agents of the regulator in matters of training programmes.

The difference between the two approaches is that the former concentrates on the benefit to clients, whilst the latter are focused upon rules-based requirements and the need to survive regulatory tests. The Chartered Insurance Institute’s paper on Ethical Culture (2013) recommends that staff, not just advisers, be trained in ethics at both the organisational and wider levels because,

> *“Working for an organisation with a good ethical culture is motivating both at the level of day-to-day (it feels good to work for an organisation which you know will treat you and your colleagues fairly and will not pressure you to act unethically) and at the level of the wider context within which your work sits (it feels good to work for an organisations whose aims and values you endorse)”*

As the professional body the CII is highlighting the benefits of imbuing an ethical culture within the firm in such a way as to be of advantage to the clients and in the satisfaction of compliance requirements. It is suggesting that establishing the ethos comes before establishing the programme, as the former will drive the latter.

More precisely there was support for the notion that organisations should provide the structure for the advice process, more prosaically articulated as creating the environment to facilitate delivery of added value to clients within the architecture of an agreed service for an agreed price.

In essence there were frequent references to the need for firms to create and oversee the application of training programmes. These references were, however, very general and highlighted one of the key themes emerging from these meetings; what is meant by training and how broad should the programme be? Are they thinking in terms of full-blown German-style apprenticeships, typically lasting three years and involving at least one day a week in the class-room and rigorous assessment (Economist 2014) or expecting higher and more academically demanding achievements based upon reformed entry levels? The role of education, experience and education is discussed later in Chapter 3.6 of this section.

Scalability

The final structural issue revolved around the perceived change in approaches arising from an increase or decrease in the scale of the organisation. IFA4 declared that whilst there are a number of very practical (but unnamed) models being applied to the financial planning process by small firms, scaling up those models to meet the needs of a greater magnitude appeared to be a challenge of insurmountable difficulty. He felt that many models only work at one level and cannot be superimposed upon another scale of activity.

Another declared that,

> *"Certainly if the employer has set up appropriate processes facilitating good quality advice and the adviser is working within those processes which logically, they must be if the processes have been set up correctly, then the adviser should be free to focus on the needs of the client."* (IFA3)

IFA7 addressed the issue of scalability in terms of reshaping the range of activities that were undertaken by individuals with the organisation.

Whilst none came even close to suggesting how the scalability issue might be addressed in terms of the future shape of IFA organisations, these latter remarks chime with much that is to be found in the cost-based fees model referred to later.

Given the propensity for most financial advisers and their employers to think in terms of turnover, that is sales of financial products, discussions regarding scale tend to reflect this attitude. The difficulty from an organisational perspective is that the greater the number of sales personnel they have and the more geographically diverse they become the more remote the senior managers become from the process and its regulatory oversight and, therefore, the more exposed the firm becomes to the possibility of financial penalties being imposed in respect of mis-selling and unethical practices.

Of course larger sales forces mean more product sales, and to this extent bigger firms of financial advisers are attractive to product providers who now relieve themselves of some of the more expensive impositions of regulation by supplying the product, but refusing to provide advice. Furthermore, financial advice firms rooted in sales remain umbilically attached to suppliers for their source of income, that is turnover, which suits the suppliers.

What would not suit a supplier is a structure based upon fees charged to clients on the basis of activities undertaken and services provided, because at that point the financial planning firm looks to the client for its remuneration/turnover, terminating its reliance upon any product provider. Such is the core principal underpinning our own business model, which leads me on to financial aspects and the responsibilities of a financial planning firm.

Financial Oversight

All of the IFA contributors recognised that the fundamental role of any organisation is to ensure its future by making regular profits, although often only after prompting. Indeed one pointed out that it would not serve clients well if the organisation failed and in doing so denied those clients the opportunity to receive further advice, thereby frustrating the aim of maintaining an environment for long-term relationships with the clients. The interests of other, unnamed stakeholders were also acknowledged.

This IFA approach concerning the generating of profit contrasted considerably with that of provider representatives. One did not offer an opinion at all, whilst two others did, after prompting, but in a guarded manner. The first of these said,

> *"Just like any other business so they need to make a reasonable profit in order to ensure that they're a going concern*." (PP2)

Although what was considered "reasonable" was not articulated.

Consider this even more cautious response in response to the directly placed question, "do you think that the organisation should have a goal of making a profit?

> "*Eh – well yes I think that's probably fair – well I think that – that's an interesting question actually because everybody has to live, everybody has to earn money and whether you are the provider of services or expecting to get service everybody understands that, so yes I think there is no issue with a firm- and actually firms have to be there in a commercial manner they have to make money - that's people's livelihoods. Having said that, there is obviously a need for those people who perhaps may not be able to afford advice, to get some help. Now whether that should be provided by charities or the government or volunteer groups I think is a different question, but in the purest sense of the word somebody's providing services they should be able to earn a livelihood in doing so."(PP3)*

There is not any sense of this publically quoted company, with shareholders demanding ever-increasing profits and dividends, recognising the right of one of their main distribution channel organisations to enjoy similar benefits, nor of the provider acknowledging that they might have a role in the provision of the pro bono services alongside their colleagues in distribution.

What was often emphasised by IFAs was that financial planning organisations are not charities. Whilst none couched this point in such terms, this should be something that governments and their agencies should recognise, instead of talking about the duty of the sector to provide pro bono publico support, whilst ignoring the cost of this to the adviser and the financial undermining of their organisation that this can cause. (Although you can choose to absorb all costs associated with donated services, "pro bono services" does not exclusively mean "free services." Pro bono services can also include services provided at-cost, and you can take certain deductions for tangibles absorbed, according to the American Bar Association.)

Aside from doing something for nothing, which for a commercial venture is a contradiction of its assumed purpose, the Buddhist mantra is that you should look after yourself first, to ensure that you are then fit enough to look after the interests of others. Making a profit should not be an issue, it was thought, but how that profit was made could be.

You may consider it a paradox therefore, that only one of those so keen to support the idea of ensuring the creation of profits mentioned the need to set a cost base for the provision of advice to clients. He felt that

> *“If you’ve got your structure and your process and everything else right, you should also hopefully be ensuring that you are a profitable organisation, but that one of the things with the advisory firms is that not enough focus is being put on the cost base that constitutes the true cost of advice, the effect of economies of the scale of the business and considering cash flow forecasting techniques” (IFA3)*

Reflections and Observations

So, overall two main themes emerged from consideration of a financial planning organisation’s purpose, namely providing a structure within which it operates and maintaining a financial oversight aimed at making a profit. Whilst overt mention of matters ethical were virtually absent, given the nature of the topic this may not be considered as critical to survival and development as its absence might be were it to continue to be ignored during later conversations.

Whilst it is not disputed that part of an organisation’s purpose may include providing a structure within which to operate, the structures referred to by most IFA contributors related to those necessary to support IFAs in their role of, as we shall see later, sellers of products capable of generating an income, or both an immediate and continuing nature. What if those structures incorporated a basis for making advice the product, instead of the narrower financial instrument of a product provider?

Not one contributor recognised that a prime requirement for any organisation wishing to survive in the long term is the development of a strategic plan. Indeed mention of its short-term planning cousin, the budget was also absent so the requirement to collect together any idea of the costs of running the business was also missing.

What form might an appropriate strategy take? If the label of independent financial planner is to mean anything then it is to mean the imparting of guidance derived from the adviser's knowledge concerning financial planning, not just products within the field. Thus the appropriate basis would be one to be found in a resource-based strategy, with knowledge creation being one of its most important resources. With suitably skilled advisers, in the true sense of the word, independent advice could then become the product and fees calculated and generated without recourse to financial products (Hitt, 2001).

In achieving such a position the intention to ensure the client's needs are put first coincides with Kant's first principle and that also ensures that the means to do this fulfil the second principle that the client is also at the centre of the intended end position.

Finally, by now your may be screaming "what about the firm's role in marketing?" The communicating of what the firm has to offer to existing and potential consumers was not mentioned by one IFA, which you may feel is astonishing.

A product provider representative referred to this in the following way,

> *"I say the barriers (to development) for me are the cost of advice and getting the next generation through the door and getting them to understand what the value of having a strong grip on your finances can be" (PP2).*

For him communicating what the advantages were and how cost effective engaging with an IFA could be were of paramount importance, yet it does not warrant a mention from the IFAs quarter in the context of what an IFA firm should be doing.

The reason may be the lack of management capability. The need to plan ahead is referred to in the CII's paper on *Ethical Culture: A practical guide for small firms*, published in 2013. That they saw a need to draw the attention of firms to the need of this fundamental requirement of business is in itself telling. However, this theme is expanded upon in an article in the Economist magazine in 2014 (Schumpeter – "Measuring Management") in which they refer to the ongoing work of Nicholas Bloom of Stanford University and John van Reenen of LSE. They state that good management employs three main techniques, namely setting targets, rewarding performance and measuring results. The work studies 10,000 organisations in twenty countries and suggests

> "*that good management is indeed tightly linked to improved corporate performance, measured in terms of productivity, profitability, growth and survival*." (Bloom and Van Reenen 2010)

This work is effectively a development of Fayol's original theme, but on a much grander scale; its absence from the contributions of both the IFAs and product providers interviewed on the topic of the purpose of a financial planning firm is therefore disappointing. However, recognising a need is often the starting point for satisfying it and strangely the answer is not rocket science, but simply involves the resetting of a firm's moral compass and incorporating an extended range of competences. Put simply, this comes in the form of charging real fees for real activities and benefits to real clients (not customers), as our own existing Activity Based Costs and Fees Model has been demonstrating for the past fourteen years.

The issue is can this be developed using the existing human capital working within the IFA sector? Consideration of the themes emerging from the opinions contained in the next chapter may provide the reader with some feel for the answer.

Nevertheless, the lesson to be learned is that the first step in the management of any organisation and in particular financial planning firms, regardless of size, is to create a plan.

3.2 - What is the role of a financial adviser?

Summary of Main Themes Discussed in this Chapter

- Whether the role of the financial adviser included or was solely that of acting as a conduit for the distribution of providers' products
- Perceptions of how financial advisers fulfil their duty to their clients
- The maintenance of the relationship between the financial adviser and the employing firm
- The relevance and characteristics of work undertaken on a pro bono publico basis.

Having determined to a greater or lesser degree the function of a financial planning organisation, discussions with contributors then turned to understanding perceptions regarding the role of a financial adviser/planner. Whilst a few saw no difference between the former and the latter, in part because they believed that having perhaps only one authorised adviser there could not be any difference, the majority were able to see how the two might exist to have different responsibilities. The analogy is that of the one-person operated limited liability company, where the individual has a separate existence in law from the company.

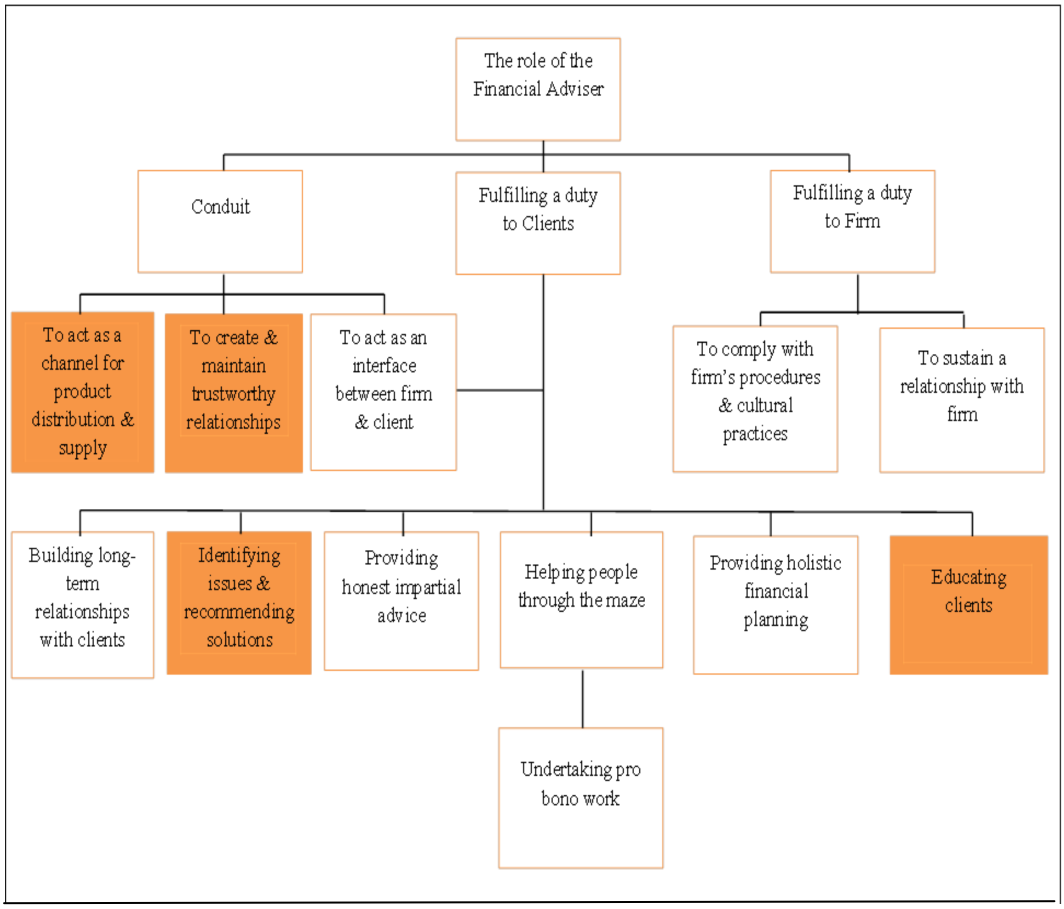


Figure 7 - The Perceived Role of Financial Advisers

Nevertheless, there was a greater homogeneity amongst contributors regarding this topic with the diagram above demonstrating regular inclusions of four particular themes, highlighted again in orange.

If there was a box representing a complete absence of reference the one covering morals, ethics and/or integrity would be in deepest orange. As such boxes are not included in these diagrams I will content myself by saying that my main observations and those of others in respect of ethics and knowledge within financial services are contained in Chapter 3.8 on integrity.

Broadly speaking, ideas and thoughts fell into one or more of three main themes, namely that of a financial adviser acting as a conduit between their firm, their suppliers and their clients, fulfilling their duties to their clients and fulfilling their duty to their firm. Contributions gathered together under a particular theme did not mean, however, that this represented conceptual agreement. Indeed, whilst some attitudes to ideas were entirely harmonious, others varied considerably, sometimes to the point of being in complete contradiction and so it was with the contributions concerning conduits.

The Conduit

A great deal of thinking was devoted to this general area of discussion. Whilst some might agree with Basil Fawlty's observation that this was blooming obvious, most IFAs denied that they acted as a channel for product distribution and supply. The denials took the form of suggesting that such activities tended to be the preserve of larger organisations, that product selling should not be the primary role and that clients should feel that the IFA has resolved an issue, not sold them a product, (even though they probably have.)

Only one IFA (IFA7) referred to the fact that some very useful products, bearing substantiated guarantees concerning performance outcome, were available only through IFAs and in that respect the IFA was acting as the distribution arm of the product provider. He made the point that he would sell such a product only after educating the client on the range of options available to resolve their need and providing the technical advice on why this particular option could be appropriate. Whether or not he fully understood the mechanics of the product was not revealed, but he was clear on the role of the Independent Financial Adviser being in part to do just that, advise.

The plethora of denials concerning channel distribution bore some of the hallmarks of protesting too much, insofar as an acceptance that product providers facilitated a major source of income to the IFA could be construed as denting the claim that the word "independent" in the title was robust.

It was almost, but not quite, universally agreed that creating and maintaining trustworthy relationships was an important function of an IFA. This was supported in terms of not only a relationship between the IFA and the client, but also in respect of a duty of care owed to their employer, the regulator and, curiously, the product provider.

In a lecture presented by Jon Everill, a past president of the Personal Finance Society, (*Will clients pay fees in the post RDR world? January 2013*) he suggested that,

> *"There is a direct correlation between the trust that advice businesses engender with their clients…. and success ultimately measured by profitability. Trusted advisers are better qualified, focus upon solutions not sales, run efficient businesses and look to the longer term."*

Gaining the trust and confidence of the client were frequently mentioned, but not the probity or integrity of the adviser. Since building trust is the primary tool of the confidence trickster, differentiating oneself from that description should be, it might be thought, of overriding importance, but a remark acknowledging that trust is not the same thing as integrity was not identified until the theme of integrity was introduced towards the end of a meeting with just one of the IFAs contributing to this research.

Nevertheless, overturning the public's distrust of the sector remains one of its biggest challenges, given that the financial services sector was identified recently as one of the least trusted (Edelman 2014).

If acting as the conduit between the IFA's firm and the IFA's client was seen as being part of his or her duty to the client, albeit by a minority of IFA contributors, then what else was seen as part of that function?

Fulfilling a Duty to Clients

The diagram confirms that there was major support for two themes within this category, firstly identifying issues and recommending solutions and secondly, educating clients.

In the case of the former how thorough this identifying process could be is rather dependent upon how experienced, qualified and educated the adviser is. This is a recurring theme; the "what" is far more readily recognised than the "how." For some it took the form of,

> *"I'm seeing clients, and know them personally- we are not shoehorning them into a solution– we're getting them in - we've no idea what it is that they want when they walk in the door normally; they come in the door – you then sort out the financial planning aspect that they need, in other words what they are there for."(IFA2)*

In such cases the client determines the need and the IFA responds by providing a menu of possible solutions, often involving the sale of a financial product. That is not to say that the outcome is inappropriate, but the foundation for reaching it is likely to have been set within a very narrow context, with that setting being provided by the client.

That same IFA, a mature individual with long experience of the sector, holding the benchmark qualification (QCA Level 4) went on to challenge the value of the contextually wider concept of holistic financial planning, saying,

> *"Sometimes, we tried it many years ago which was the full financial planning – let's do lifestyle planning –doesn't work; for most people that just doesn't work – I think it does for some people and there are organisations that are filling that gap nicely and I think that's fine – you know you have to have the right sort of client – we found that all we did was find spare money for the client to use for all the solutions. He'd tell you he's got an overdraft so could not understand the source of this spare money. We found that in probably 99*

out of a 100 cases - but then I think it depends on the client you're seeing, because not everybody's suitable for full financial planning - it doesn't work the way identikit works."

His use of the word "identikit" is revealing, because it suggests that to undertake a full financial planning analysis it is necessary to obtain some form of framework capable of converting qualitative data into suitable quantitative outcomes. Such software programs are available in the marketplace and can cost upwards of £4,000 a year to use. Where there is a lack of broader understanding of the financial services market in terms of models, theories, concepts and the practical solutions which result from them, recourse to such identikit programs is the only option. The weakness with any such software is that at some point interpretation of the information is required, which brings us back to experience, education and qualifications again, because such understanding may require learning up to and beyond QCA Level 6 (Bloom, 1979) (McLean and Looker 2006).

Chapter 3.6 considers whether such competences are available in sufficient magnitude and indeed whether the will exists amongst the current community of practice to acquire such skills.

However, the term education when used in the context of educating clients takes on a wholly different mantle, namely that of informing the client with regard to the role of the adviser and setting down the nature of the possible solutions in plain English. Communicating the role of financial services to a much wider and even younger audience was not mentioned as a part of this topic, although it did inform the work later in another guise. Many simply used the word in the sense of Lautenborn's (1990) application of communication, in which hackneyed expressions were interpreted, the practicalities of a product explained and the role of an IFA conveyed, however that latter word was seen by the conveyor.

In their paper *"UK Wealth Management at Tipping Point?*" (2012) KPMG drew to the attention of those it considered part of the wealth management sector (as opposed to the financial advice sector) that they needed to change their business model. In their view,

"It was no longer going to be sufficient for wealth management organisations to simply pay lip-service towards achieving client centricity; in future it would be necessary to reshape value propositions around the evolving needs of clients. They also recognised that new competitors using relationship-led models threatened to take share from incumbent product-led firms by providing holistic financial planning advice as a gateway to orchestrating other wealth management services. They couched it in terms of targeting a share of the client wallet rather than pure asset gathering."

The new competitors to whom they refer in the paper are IFAs and the nature of the relationship is a long-term one (Sayer and Brown 2012).

The need to build long-term relationships with clients effectively mirrored its counterpart in the previous chapter, but as in that chapter suffered the same lack of frequency of support from IFA contributors. It seemed irrational not to consider this as important when most IFAs had provided ardent support for the notion that they are there to create and maintain trustworthy relationships. Whilst most would not suggest that trust is a phenomenon that can be created in a short space of time, neither did they appear to recognise that a failure to build long-term relationships inhibits the emergence of the space for that to happen.

The building of the long-term relationship will be greatly assisted when recurring financial issues are demonstrated to fall within the ambit of the competent financial adviser. Such recurring matters include taxation, with particular emphasis on income tax which is subject to annual changes in its application, and reassurance that income in retirement will be sufficient to meet needs. Such cyclical needs create what the marketers describe as *"Customer Franchise"* whose nature is to bind the client to the adviser in all things requiring guidance in financial planning (Levitt 1960, Mercer 1998). It is a result of the client recognising the adviser's abilities to address their needs and the development of a bond of trust.

The starting point for the building of trust was identified by some as helping people through the maze that is the financial services sector and then providing honest, impartial advice. Whether that advice was to be limited by the implied competence limitations referred to earlier or was provided in the form of a holistic financial plan rather depended upon the extent of the contributor's abilities. The risk in allowing this undifferentiated level of advice capability to exist under one umbrella title is that as soon as shortfalls are revealed, probably in a tabloid exclusive, all pretence to the existence of integrity at any level evaporates.

Some might say that the Pension Review of the late 1990's and onwards represented the equivalent disaster for the financial advice sector of the banking crisis which commenced in 2008. It certainly cost the sector multi-millions of pounds and led to widespread bankruptcies amongst advisers and the mass-merging of insurance companies. Unfortunately the sector did not appear to take the opportunity to examine its fundamental models in the same way that UBS did after the banking crisis (Broom 2013). Survivors continued in the main to carry on as before, adjusting to any new legislative requirements set down by yet another regulator put in place to save the world. (The same one that was in place when the banking crisis broke, namely The Financial Services Authority).

Pro Bono Publico

Whilst some IFAs agreed that helping consumers through the maze and complexity of the world of financial services was important only one referred to the possibility of undertaking what is termed, "pro bono" work, a term that regulators and those in UK governments interpret as providing a service as a labour of love. Vague hints at the advantages that are offered by such generosity along the lines of profile raising and the feel-good factor abound, but little is mentioned of the need to ensure the survival of the organisations being urged to engage in this form of support. Furthermore, how that organisation would reimburse its advisers for the time spent undertaking the execution of such a policy is ignored, which suggests that any feel-good factor would be short-lived.

The term pro bono emanates from the Latin "pro bono publico" and is in use in the USA in determining the extent to which lawyers are obliged to carry out work "for the public good". Such work can and often is charged for, but at marginal rates. It is not usual to provide services free of charge, at least not as a requirement of the American Bar Association (Christensen 1981).

It may be pertinent to observe that when organisations such as the Consumers Association focused their attention upon the costs and charges associated with insurance contracts and the probable consequent reduction in yield they were almost certainly unaware of the unintended consequences of their campaign. Up until that point "Industrial Branch" insurance companies and friendly societies established in the late nineteenth century had focused upon providing modest savings, life assurance and disability compensation policies. Premiums were collected in cash from the policy-holders on a weekly or perhaps fortnightly basis. It was expensive administratively because there were thousands of company agents involved in the collection process ("the man from the Pru" was the well-known example, although he could have been from the United Friendly, or Britannic, or The Refuge, or dozens of others) and they worked on a commission basis. Nevertheless, poorer and less privileged members of society were afforded the basic protection that ensured that in the event of disaster they had access to some savings or income to meet it. The focus upon costs and charges attaching to the financial products offered ensured that the entire Industrial Branch operation collapsed leaving a vast section of the population without protection and bereft of the opportunity to seek alternatives.

What is needed to correct this is new legislation allowing for exemptions from EU capital adequacy requirements for such industrial branch operations along with marketing focusing upon service and benefits, not yields. Pro Bono is too whimsical a notion to address this vast problem on its own and in fact seeks support from a sector, which for once, is overqualified for the purpose.

Notwithstanding this, perhaps if there was a greater awareness of how such pro bono work could be undertaken by IFAs there would be a greater support for the notion and less emphasis by certain IFAs on the need for a minimum charge to support the quest to ensure profit in every case for every potential client.

Fulfilling a Duty to the Firm

This is the area with the greatest potential for the existence of tension. Clearly as the employer the employee has a moral duty to act in the best interest of that body, ensuring that functions are executed within the boundaries set to ensure statutory compliance, organisational procedure and the organisation's profitability. If the relationship is to prove successful then there would be an expectation that the employee is in step with the cultural practices as well as the formal contractual obligations of the organisation.

In their paper "Ethical Culture: A practical guide for small firms" (2013) the Chartered Insurance Institute suggests that a firm's ethical culture is directly connected to its founder and,

> *"It has been those beliefs, values and assumptions about how work should be done and how people should behave that have been most influential and, therefore, if those beliefs and values had been wrong for the market the business was launched into it wouldn't have succeeded."*

Laudable, but not if it is at the expense of the client's best interests and also questionable when seen in the context of something as damaging as the pension review, when activities not judged to be illegal or unacceptable at the time of transaction were, with the imposition of hindsight regulation, extremely damaging.

The difficulty here and one that is repeatedly raised throughout this work, rests in the need for the firm's profitability to be maintained where satisfaction of that aim relies mainly upon the sale of a financial product. If the correct solution does not involve such a sale then from where is the income stream to come? If the culture of the firm does not embrace the opportunity for the adviser to earn a living other than by the sale of financial products then real tensions must develop and not necessarily to the advantage of the consumer.

In the view of a supplier representative PP2 one of the guiding principles that emerged with regard to the employment of an adviser's time was that there should be a minimum asset value requirement in respect of the consumer's potential to generate income. The phrase used at present is "the acquisition of high net worth clients." Whilst there is a lack of a clear definition of what constitutes high net worth it is agreed that this is a finite group and that with evermore IFAs chasing it the number available to each would be declining. Furthermore, it suggests that the consumer is seen merely as a means to achieve the adviser's end, but not as an end in themselves, contrary to Kant's premise.

Some assistance in resolving this dilemma could come from the firm and indeed according to the following observations will ultimately be imposed:

> *"I think that we're seeing with the FSA in the notes on incentives (FSA January 2013), that the FSA would rather see people locked into the longer-term profitability of the business without short-term incentives - so people locked into a longer term relationship, whereas I think in the past some organisations were much more focused on the short-term and we've seen in organisations that just focus on one-year production, one-year targets – the problem with that is that people don't think about the business long-term". (IFA5)*

Of course, as in earlier examples this is another identification of "what" but not "how." If the unnamed incentive is to be converted into a long-term related one, what form is that incentive to take and what is meant by long-term. How would that incentive be linked to ensure that the interests of the clients are protected, let alone enhanced? Again questions aplenty and answers few, so far, but consideration of recent research, referred to in Chapter 3.6 might be helpful (Akerlund, 2014).

Reflections

The first consideration and a lesson to be taken very seriously is that the IFA role is separate from the organisational role, but that both must be present and actively employed for the firm to survive and thrive.

What is vehemently denied by IFAs is that their role is one of acting as a distribution channel for products, although the providers themselves are quoted as saying that they see the IFA sector as a vital part of their business model. Acting purely as product providers' channels of distribution places an IFA within a strictly sales-oriented category. In reality few small firms of IFAs see themselves in the image of product distributors, although the results of later discussions on fees and commissions suggest that many effectively rely on this alliance to sustain themselves. However, when discussing product and service ranges offered, in Chapter 3.7 contradictory activities were in evidence.

Notwithstanding this there was an underlying hint that many IFAs wished to move away from this relationship (even as they denied its existence), without their having an idea of how this might be achieved. They are keen to retain the image of being independent, but are frustrated by their inability to determine how this might be achieved within the confines of the definition of the word. Their professional bodies are not helpful in this respect, being vague to the point of diffidence on this point, which is something that will receive greater attention in later chapters.

All IFA contributors implied a desire to ensure that their clients received a good quality service that would be in the interests of both parties and would sustain a long-term relationship. There was much talk about existing practices, but almost none about a framework capable of absorbing change and stimulating development. As will be recounted later, there is a desire to change, but only if it involves retaining existing modes and practices. Any likelihood of change involving new models and practices goes unconsidered, possibly because as an article in Financial Planner observed, there is insufficient capability within the community to think outside the box (Smith 2014).

However, in the belief that holistic financial planning was vaguely within the box some suggested that it might be the way forward, whilst others were very much opposed. Of concern should be the fact that competitors in banking and wealth management saw it as essential in providing a sustainable relationship with their customers. Wealth managers see the IFA sector as a main threat because, in their eyes, that sector is already functioning in a way that is building long-term relationships (Sayer and Brown 2012). This is a competitive advantage which IFAs should be grasping with all their energy, because they already have access to the relevant client base and with the number of chartered and post graduate degree holders rising rapidly they should be more than capable of doing this.

Long-term relationships can be built upon a platform of repetitive needs, such as identifying relevant updates on tax changes and referring clients to the appropriate experts, thereby building a client franchise. At the 2013 PFS Conference a Law Society speaker reminded IFAs that they are the only body of professionals that see their clients on a regular basis, or should be, and are therefore the only ones to be able to assist clients in dealing with changed circumstances at an early stage, either personally or by referral to other professionals as part of the process of regular reviews. Having this regular relationship with an IFA leads to the establishment of trust and long-term trust tends to reflect the presence of integrity. Speed is not of the essence, but competence and reliability are.

On the subject of Pro Bono activity it was noted that this appears to be most enthusiastically supported by those not having to meet the cost, such as governments and professional bodies. The claimed advantages are somewhat specious and in no way address the problem of the non-advised members of the abandoned Industrial Branch Insurance sector, created as a result of government legislation and well-intentioned, but misguided, campaigning from consumer bodies. Personal experience confirms that many IFAs make considerable contributions to society through membership of Rotary clubs, serving as school governors and trustees of charities. It is a function of government to protect underprivileged members of their society, not IFAs.

When reflecting upon the issues arising from an IFA’s duty to the firm employing them gaps appeared in the interconnectedness of that relationship. It was clear that where a firm arranges its sources of revenue through mechanisms mainly involving the sale of financial products, as most do, a conflict of interest often arises (Baxter, Megone et al. 2012). This is manifested in the way in which a client's needs are addressed, as opposed to how they might best be addressed, the IFAs remuneration interest and his/her wish to support their employer in terms of ensuring a flow of income.

Until there is a cultural shift leading to a different income generating model this conflict will be perpetuated or, should the regulator become more aggressive in the application of its rules banning the payment of commission in any sense, the firm will fail. UBS, (Broom 2013) and KPMG (Sayer and Brown 2012) have indicated the way forward and the better qualified IFAs have recognised it. All that remains is for the adoption of the relevant process and that requires understanding the nature of fees, which follows in the next chapter.

3.3 - The Characteristics of Fees

Summary of Main Themes Discussed in this Chapter

- The nature and characteristics of fees
- How fees can be related to activities, performance or cost
- The nature of fees which are not associated with activities undertaken, performance achieved or cost expended
- Ethical aspects and issues of the fees discussion
- Fees and bad debts

Introduction

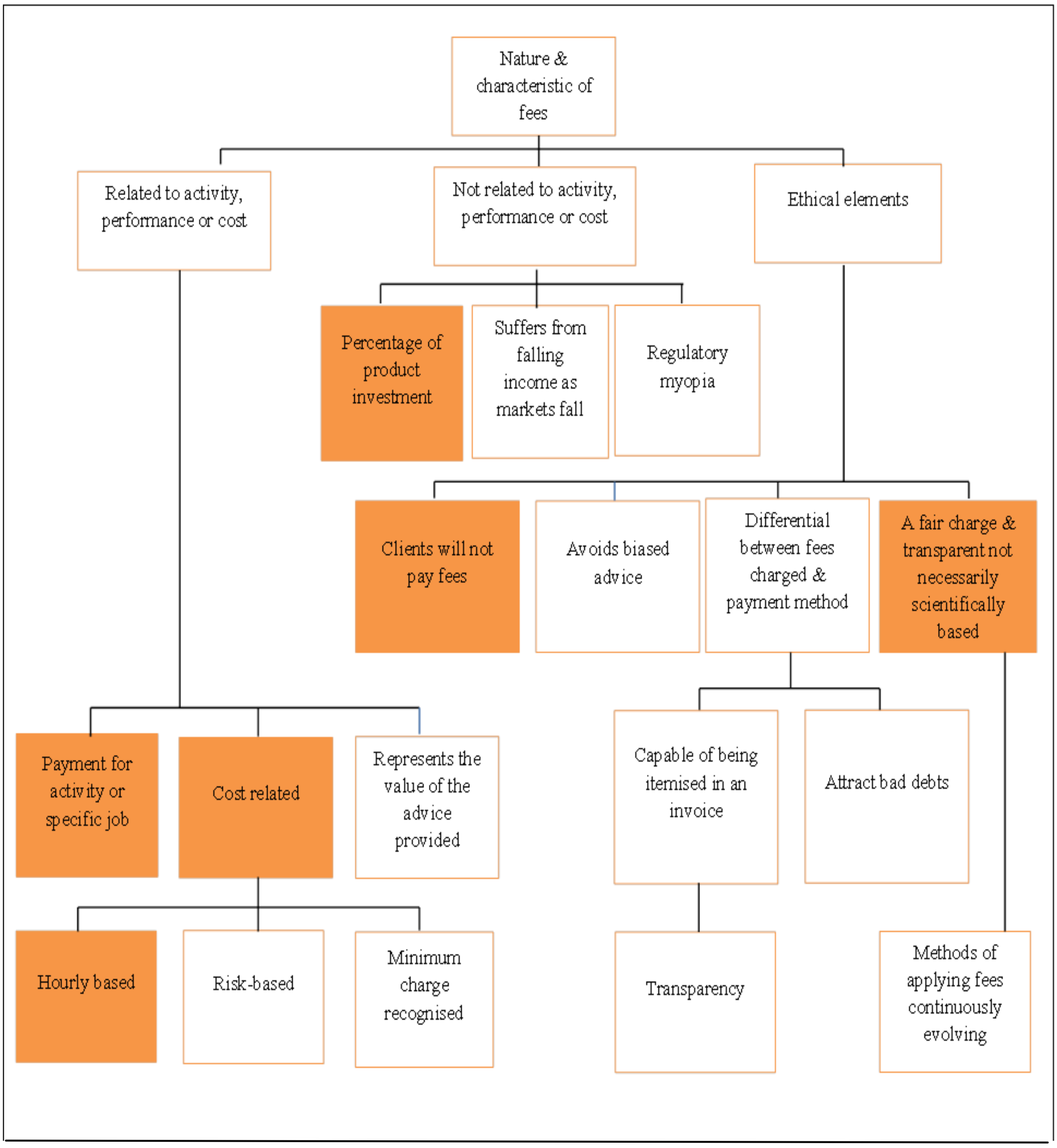
What do we mean when we talk about the term fees? It is a question that should be exercising the minds of those connected with the independent financial advice sector, because the term formed a central plank in the legislation introduced as a result of the Financial Services Authority's Retail Distribution Review. It may be considered odd, therefore, that there was such a broad diversity of outcomes in terms of themes developed amongst IFAs when the question was put to them, as is manifested in the diagram below.

So let me start by providing the Compact Oxford English Dictionary's definition of the word fee: *"A payment made to a professional person or to a professional or public body in exchange for advice or services."*

In a recent thematic review paper "*TR14/6 Supervising retail investment firms: being clear about adviser charges and services*," the Financial Conduct Authority said that it had introduced the Retail Distribution Review (RDR) to improve outcomes for consumers, by enhancing professional standards, removing key biases and ensuring that the costs of advice are clear and central to this was the banning of commission for advice. In their review paper they sought to discover how much progress had been made since their first review in July 2013 and were disappointed to note that up to 73% of those firms included failed to meet the requirements in one way or another (2014).

Whilst that paper was very concerned with the clarity of the mechanisms used by advisers to calculate their charges, it did not appear to suggest that there could be a link between those charges and the specific service or cost base. Furthermore it was quite happy to use the terms adviser charges and fees interchangeably, which some might argue is an unnecessary confusion and not entirely consistent with the Oxford English Dictionary definition quoted above.

Now consider the responses from a range of experienced IFAs, from both genders, and generally qualified to at least QCA Level 6 standards. What is at first apparent from the diagram below is the range of beliefs, ideas and themes that emerged, sixteen in all. Those highlighted in orange were mentioned frequently, whilst the remainder received limited consideration in terms of the number of IFAs contributing to that area of discussion.



<u>Figure 8 – The Characteristics of Fees in the Context of the Financial Planning Sector</u>

What was startling, given that all IFA contributors were provided with the menu of topics at least a week before the meeting, was that in some cases there was very little sense of understanding the nature of the topic and further expansion and prompting was often required.

The themes that emerged have been organised in to three groups, namely fees which are related to specific, transparent activities or cost centres, those which appear to be unrelated and those giving rise to ethical issues.

Fees Unrelated to Activity, Performance or Cost

It is important to emphasise at this point that the payment of commission on the sale of financial products to retail customers, with the exception of life assurance policies and some elements of pension plan provisioning is now banned and that there is a requirement for transparency when charging fees to clients.

One product provider contributor, PP1, observed that:

> *"we're seeing a lot of firms even now that think, well we were doing a 3% plus 1% before RDR, we're still doing 3+1, but what we've done is written to our customers saying we're doing all these things to justify it. So they take on the old model, putting it in the new mould and saying to the client we're doing all this stuff now and that's why it's 3% plus one per cent. Presumably they were doing all that stuff beforehand – it's just that - so I don't think yet the new regulator and the new regulator will take a few prisoners and ensure that their intentions are well understood, the new regulator, the FCA, just won't tolerate that unless they are seeing genuine value exchange. They just won't tolerate it, they simply, they absolutely won't tolerate a firm that is doing nothing different now to what it was doing five years ago, just dressing it up and saying it's called RDR now and this is what we do for it. So a lot of firms I think have got quite an awakening in front of them in terms of how they move into a world where they can genuinely in a repeatable and scalable way demonstrate an exchange of value."*

These comments suggest that it could be germane to consider IFAs' comments on the charging of fees which do not appear to have characteristics relating them to the provision of an activity, performance or cost of a service, something which is given greater consideration in Chapter 4.

Numerous contributors commented on the theme of charging a fee based upon the value of the product or investment. What was surprising was that not everybody did, despite this method being employed on an almost universal basis.

One IFA contributor noted that

> *"I'm part of the Paradigm Network, so we've got 300/400 firms, and we attend regular meetings and see what is being charged across the board and it still varies quite dramatically – most people are settling for the 3% upfront as the sort of maximum and then charging anything from 0.5% to 1% going forward. I think probably a better model would be charging 1% and then ¾% going ahead." (IFA2)*

This percentage approach is referred to by another IFA, who is also a representative of one professional body, as the ad valorem method. No mention is made here of any other method of charging being used or considered by Paradigm members.

The discussion is about the level of percentage applied, not the method of charging the fee.

Linked to this form of "fee-charging" is the recurring or ongoing fee which again is met from the investments on an ad valorem basis. This is the Paradigm member's reference to "anything from 0.5% to 1% going forward," although how the fee in itself relates specifically to a service is not clear, leading perhaps to the FCA's view, contained in its recent thematic review TR14/6 referred to above, that existing failings within the advice sector suggest,

> *"That some consumers could be unaware of, or even mis-led, in relation to the cost of advice (both initial and ongoing), the type of service being offered…. Or the service they can expect to receive in return for the ongoing fee,"*

In a briefing paper dated May, 2014, The Economist suggested that investment funds that paid an ongoing fee gave rise to a conflict of interest in the mind of the adviser, given that low-cost tracker funds might suit the investor risk profile better, but could not support a payment to the adviser. They believed that the RDR introduced in 2013 requiring advisers to explain the true cost of advice would ensure the availability and supply of low-cost investment products to the benefit of consumers. What the Economist believes and what is actually happening is something which received comment from the supplier contributor at the beginning of the section on unrelated fees (Economist 2014).

Nevertheless, the Economist beliefs and the regulator's requirement will ultimately become symmetrical and it is clearly imperative that IFAs attend to this issue of ensuring that a clear link exists between the fee charged, initial or ongoing, and the service provided for it, because as things stand this is not the brave new world of banned commissions and transparent fees envisioned by the regulators and consumer groups.

It is worth considering the view of one long-standing financial adviser on this phenomenon,

> *"I do think that at the moment there are a whole load of people out there charging too much for what they do, but that's always been in our industry, I'm afraid. And since the regulator has decided to go down a different route, it's not worried about how much you earn. It's not controlling that side of things at all, at the moment - people (advisers) are taking 3, 4, 5% upfront and 1% ongoing and then pushing it out to discretionary fund managers to manage. Well I don't think that is sustainable, but at the moment there's no control over the cost side and the transparency side is just so confusing that I really think that this will pass us by for another few years until the Financial Conduct Authority sets its sights on that." (IFA2)*

The unspoken suggestion contained in these remarks is one that is often used in the media, namely that the percentage-based approach to charging a client or consumer will always result in huge profits being amassed by the seller. However, the reality is that neither the majority of IFAs nor anybody else connected to the sector has any real idea of the costs involved in various activities and, therefore, whether any income, however generated is sufficient to cover that cost is unknown, as suggested in Chapter 5. Coming to grips with the key requirements of the new regulations would almost certainly ensure greater efficiency and profitability, whilst at the same time avoiding media sniping, however ill-informed it might be.

Perhaps at this stage consideration of a possible alternative group of themes, beliefs and ideas would be appropriate.

Fees Related to Activities, Performance and/or Cost

There was much support for the idea that a fee should represent payment for an activity or job. There was rather less certainty about rating techniques and the practicalities of applying the general principle.

A provider contributor representative suggested that,

> *"Fees are the consideration of an exchange of values, aren't they? You know offer, acceptance, consideration or whatever you want to call it in legal terms – fees are consideration aren't they? – You offer me services that really appealed to me, that appeared tangible to me, that I can absolutely associate value with – I accept those services and assuming they're kept will continue to buy them and the consideration is the fee – that's it's worth me paying you £50 a month for that peace of mind, that knowledge that I trust you and that you got my interests at heart, is well worth the £50 a month or £80 a month, or whatever it is. Fees are the consideration I think for that trusting relationship, that's what it's worth to me as a customer to know that I've got someone at the helm whom I trust and who I know's got my interests at heart."(PP1)*

That contributor’s reference to “continue to buy them” is also a reference to the stickiness of the model, referred to in the previous chapter covering a financial adviser’s role, and is justifying the charging of a transparent fee covering an ongoing service capable of addressing changing circumstances.

In contrast it appeared that broad agreement exists amongst IFAs on the acceptability of charging a fixed fee for a particular project or job, at least conceptually. The devil is in the detail, the how much to charge and on what basis detail. It also avoided any consideration of continuity of service, inferring the bespoke, not holistic approach.

On the one hand an IFA specialising in divorce work said:

> *“I always give my estimate in advance and I've always generally say it will be between this figure and this figure so it does give me some margin - it’s very rare that I over-estimate but I can go back and cut it down if I have taken less time so I think it's quite – I always work out how long it's going to take me – I completely disagree with the “oh well I charge 1% or I charge 3% as the initial fee for doing some work” because I think that doesn't represent anything in my view. I know the people out there who would disagree with me because sometimes if you charge 1% and it's not enough – if you charge 3% it’s way too much so I disagree with charging a percentage fee – I really disagree with that. I think every piece of work has to be bespoke – so that's my view of it.”(IFA6)*

This is a time-based fee approach with reference to “how long it is going to take me,” but relates to a fee for a specific job, not unnaturally in the case of divorce-related work, it might be said, although others might argue that financial planning is even more vital for individuals in the period beyond such a massive traumatic experience.

Other responses immediately fell back on the percentage-of-investment technique, referred to in the previous section, asserting that the researching, processing and reporting requirements to facilitate the investment represented the job. Pinpointing how much time has been spent on these and by whom and at what rate was ignored, meaning that an opportunity to recognise the cost to the firm and the benefit to the client is missed. The essence of this approach was that if the client accepts the fee quoted then the relationship between the work and the fee is established, the transparency rules are met and any apparent similarity with the now outlawed commission payment is entirely coincidental.

Amongst provider contributors there was a certain recognition, referred to earlier, given to the idea of fees representing a possible exchange of values, but even after some prompting the recognition of the cost of providing the service was either not understood or ignored. Unfortunately none of these contributors could inter-relate these values with the service they referred to, which probably accounted for their inability to link cost to service provision, given that the values contained in that service were not recognised.

Notwithstanding this, most IFA contributors made reference to the desirability of fees being cost-related: Comments such as:

> *"A focus on the cost base is required" (IFA2)*
>
> *"There is a need to explain to the client the costs faced by an IFA in respect of the Financial Conduct Authority, Financial Services Compensation Scheme, The Financial Ombudsman Service, and Professional Indemnity Insurance premiums" (IFA6)*
>
> *and*
>
> *"IFAs should be aware of cost" (IFA7)*

were common, but lacking in substance. As a practitioner has already been recorded as saying, most IFAs don't know or understand their cost base, perhaps because their original training was delivered within a sales environment and not, despite the title, financial management. Whatever the cause we are back to the "what and how" conundrum again (Sutton, 2012).

It may be that this lack of awareness of business cost is the reason that IFAs arrive at the hourly rate, which they are obliged to provide to clients and the FCA, in such an arbitrary fashion. It may also account for the fact that not one referred to the specific cost of risk to the business, expressed both in terms of potential claims, compliance failings and the administrative costs of compliance oversight. It is somewhat paradoxical that when observing on the barriers to the future development of their businesses, considered later, the majority of IFAs saw the cost of regulation as being a major impediment; if they do not know that cost how do they know it is a major impediment?

A number did, however, state that they had a minimum net-worth sum, below which they would not conduct business with an enquirer, which might suggest a sales-oriented bias and introduces the platform for consideration of ethical issues. (In a lecture entitled *Will Clients Pay Fees in a post RDR World?,* presented to members of the Personal Finance Society in 2013 Jon Everill, a member nominated director of the PFS, suggested that a major issue was "Lower value clients" where investments/requirements don't generate enough fees to be valuable to both parties. He posited that the level of inadequacy might commence at £50,000, or £100,000, or £150,000 or perhaps even higher.) Setting aside other issues, Everill's inference is that the fees to which he is alluding are the percentage-based ones referred to already (Everill 2013).

Such attitudes reveal a complete lack of understanding of marginal costing, familiar to management accountants as being a very useful method for short-term decision-making. In essence if the cost of all fixed overheads have already been absorbed into the rate, however calculated, then charging the consumer a fee at least equal to the variable cost of the product (advice?) will ensure that the work undertaken cannot be at a loss; charging at a figure above cost, although not necessarily at the full rate, will add to the overall profitability of the organisation. For a more detailed explanation of the concept read *"Accounting and Finance for the Non-Specialist"(Atrill and McLaney 2006)*, but for the argument in favour of acquiring an understanding look at Chapter 5 of this work.

Let me emphasise what I said in the previous paragraph, "if the cost of all fixed overheads have already been absorbed into the rate," which cannot be the case where a fee calculated on an ad valorem basis is anticipated, because that is a reflection of income, not cost. Furthermore, in recognising the cost of providing the service an automatic link is established to the activity for which the fee is charged and in turn the client and adviser are in a position to determine, whether, in their opinion, the fee represents sound value for the advice provided. That ensures that the process is both transparent and ethically robust, assuming, of course, that the sums have been done to provide those fee rates.

Ethical Elements

Clients will not pay fees – that is the received wisdom amongst the IFA and product provider community, but as one fee-charging IFA (IFA6) commented, *"has anyone asked them (the clients)?"* Is the mantra a representation of reality or another example of a deliberate stratagem to avoid engaging with what might be an entirely alien scenario for people historically locked into a sales and marketing community of practice and, therefore, a manifestation of an unwillingness to change direction?

If it was true that clients would not pay fees then this would suggest that clients would be prepared to accept advice and guidance without remunerating the provider. These same consumers, in the main, would never dream of walking into a shop asking the proprietor to hand them a product and then leave without any intention of making payment. Why should they act any differently when dealing with their financial adviser? Well, they will not once the adviser has explained to them what the product is, how much it will cost and how payment can be made.

So to reiterate, whilst there is now evidence challenging that claim, (our own fees model has been running for fourteen years, for example) it is a question of scale as to whether sufficient numbers of consumers understand and have the desire to commit to the payment of fees. Rationally, if we are told that commission payments on the sale of financial products is now outlawed, but at the same time informed that those customers will not pay fees we must ask does this mean that the wholesale investing into such products has now ceased because advisers cannot earn any money. Nothing in either anecdotal or media form suggests the collapse of that sector so may we conclude that the fees advisers are receiving are not the same fees that those recipients are assuring the world consumers will not pay?

Leaving aside my own firm's fourteen years' experience of fee-charging for the present, it is clear that the IFA specialising in divorce can and does charge fees allied to the scale and complexity of the work undertaken. It is a fee which all parties to the process accept as fair and transparent, but it is undertaken by an individual who is an expert in her field, equipped academically and technically to meet the requirements of her clients and their legal representatives. When she is tasked with providing guidance on a financial planning matter falling outside her expertise she seeks the support of another colleague specialising in that area – a benefit of operating within a firm composed of a range of niche experts who together can provide a broad spectrum of advice and guidance on matters of financial planning.

Bad Debts

But how is that fee charged and collected? So far the discussion has been simply about fees, the "what" but not the "how" scenario and not one contributor thought to include this in their response. Under the ad valorem method the "fee" is either paid to the adviser by the product provider, or the sum is deducted from the investment sum before it is placed with that provider and the ongoing "fees" are distributed by the product provider directly to the IFA thereafter.

Solicitors and accountants, whose professional standing in the eyes of the public many IFAs aspire to, are obliged to raise an invoice itemising the services for which they are billing. The invoice is sent to the client with a request for payment. In raising this invoice the firm is requesting payment for the services transparently identified in the invoice; it is clearly delineated from the process of settlement. Most clients do settle their accounts, sooner or later, but some never pay, the bad debt. In the following box are recorded my thoughts on this conundrum, prior to attending the Personal Finance Society's Annual Conference in November 2013

> *"With regard to the claim that fees are charged to clients by IFAs it would be interesting to ascertain how the level of bad debts in IFA firms compared with those which persist within the legal and accountancy sectors. The hypothesis is that where bad debts are very low or non-existent it would suggest that the "fee" is not treated as being collectable from the client in the first place and therefore cannot be viewed as ever being a bad debt."*
> Cawdell K E – 29/9/2013

Where fees are invoiced directly to clients there will be bad and doubtful debts. Where that phenomenon does not appear in the accounts it is almost certain that invoiced fees do not form part of the process in that organisation, for it is a fact of life that in business bad debts occur and guidelines to the professional accounting bodies require evidence of prudency that produces provisions for doubtful debts in the accounts. (To fail to do so would mean that the expectation that all trade debtors appearing in the balance sheet would shortly convert into cash would not be true and would, therefore, overstate the value of the organisation’s working capital position)

That November 2013 conference included a break-out session attended by some eighty IFAs, all of whom had to be remunerated by fees, because that is the law, but not one of whom suffered from bad debts amongst their clientele. Would that be because that year’s fee was collected in the same way as pre-2013’s (and therefore pre-RDR) commission, albeit in a slightly more transparent wrapper and if it is, is it ethical to pretend that there has been any change in substance. During the two-day event I took the opportunity to put the question of bad debts to a further fourteen IFAs, each one of whom confirmed that they never suffered from bad debts amongst their clients.

Consideration of IFAs views on the features of commissions in the following chapter may assist in providing an answer.

Reflections and Observations

The OED’s definition of the word fee is “A payment made to a professional person or to a professional or public body in exchange for advice or services.”

At present there are two types of fee being applied in the IFA sector, namely the “fee” paid by the supplier of an investment product upon its being arranged by the IFA for a client; this is referred to as the initial fee, but might sometimes be replaced by some other euphemism such as an adviser charge. The second type is the ongoing fee paid by the same product provider from the same investment to the same IFA. The link between the payment of these fees and the former transaction is relatively clear at a general level, although whilst the percentage charge tends not to be varied by the IFA there is a very strong likelihood that the service required must. In the case of the second type of “fee” the link is virtually invisible, probably because it does not exist.

In the executive summary of the FCA’s paper referred to at the beginning of this chapter, they stated,

> *“We found that a high proportion of firms are failing to correctly disclose to clients the costs of their advice, the type of service they offer and the nature of the ongoing service they provide. In particular 73% of firms failed to provide the required generic information on how they charge for advice and/or failed to clearly confirm the specific cost of advice to their individual clients in a timely manner. For example, fewer than half (42%) of firms*

surveyed gave their clients clear upfront generic information on how much advice might cost and only half of the firms surveyed clearly explained how much advice would cost clients as individuals.

In our view the level of non-compliance we identified and the failure of firms to meet their regulatory requirements is unacceptable."

To an extent the regulator does not help itself in this respect. When requesting completion of its half-yearly return from IFA firms on operational factors its enquiry concerning fees relates only to asking for the average optional hourly rate, as if this is the only method other than ad valorem. What is clear is that it does not accept that the current method employed and interpretation of what is a fee by IFAs is acceptable.

The appreciation amongst contributing IFAs of what the term "fee" represented oscillated between a claim that changing a single word in an agreement from commission to fee completely addressed the change demanded by the regulator following the implementation of the findings of the Retail Distribution Review (IFA7) and, at the other end of the spectrum, the categorical statement that,

"For me, the key is, we'll charge for advice." (IFA3)

The practical issues ranged from a claim that clients will not pay fees to demonstrations that they already were, but the major difficulty in the minds of the majority of contributors was not the acceptance of the concept, but how to implement it and this appeared to be the result of a very narrow experience in the management of a business and in particular the development of a financial strategy that this requires.

Nevertheless, what has emerged from discussions with IFAs is their acknowledgement that charging fees on the basis of cost, activity and performance is both desirable and necessary. Some recognised that the opportunity to discuss with clients and potential clients the range of services to be provided, the estimated cost and how these payments could be made created a solid foundation for the establishment of a long-term relationship, the essence of the "client franchise" referred to in the text.

A clearer understanding of the relationship between cost, volume and profit is required, but should not in itself provide a major obstacle to progress. Indeed, once a basic understanding has been achieved the entire foundation of the firm's existence will have been enhanced beyond current recognition and the development of a sustainable business commenced.

What is paramount is that there is an understanding of the difference between a cost recharged to a client as a fee and the payment for that fee. Determining that a payment made directly from an investment product provider to an IFA by means of a deduction from the investment can only really represent the latter; it does not have a connection or attribute identifying it with the former.

It was generally recognised and desired that employing ethical standards based upon Emmanuel Kant's categorical imperative was the aim, even though it was never couched in those terms by the contributors. Whilst most parties accept that professional ethics are an important factor in raising standards there is a tendency for them to be selective in their setting. Thus, when the PFS member-appointed director talked about the possibility of clients paying fees, or not, he discussed this in terms of percentage-calculated fees involving investment products, which is entirely within the ethics rules set by his professional body, but not the same thing at all as the definition provided by the OED or desired by contributing IFAs.

Fundamentally, this chapter has been about the nature and characteristics of fees as they exist within the financial planning sector and how they might have to be employed in the future. That is, should fees be a payment for service and cost as opposed to commission being connected to a reward for sales. Management accounting techniques that address, amongst other issues, the nature of cost and how they would help are discussed in Chapter 5.

Our next chapter considers commissions in the financial services sector, past and present and offers, I hope, an opportunity for you to compare and contrast with what has been discussed in this chapter.

3.4 - The features of commission as applied within a financial planning firm

Summary of main themes discussed in this chapter

- The features and characteristics of commissions
- Incentive schemes and conflicts of interest
- The resurrection of commission
- Opacity and transparency – the shaping of the business model

Introduction

The Oxford Compact English Dictionary's definition of commission,

> *"A sum, typically a set percentage of the value involved, paid to an agent in a commercial transaction"*

is almost identical to

> *"Denotes the remuneration received by the adviser as the result of a financial transaction implemented by him/her, when the same is calculated as a percentage of the value of the transaction,"*

which is the Institute of Financial Planning's version, incorporated into its Code of Ethics. Almost, but not quite; the former refers to an "agent" and the latter to an "adviser"

The diagram below maps out the various themes and ideas emerging during recorded conversations with IFAs and product providers and confirms that there is general recognition that commissions are percentage-based and set by the product provider. It was not disputed that product providers set the commission levels and in the previous chapter we have already considered the existence of ongoing payments, now referred to as fees, but previously known as trail commission, and the absence of a credible argument for their continuation. All of this is reflected in the section of the diagram grouped together as Characteristics.

The only difference discerned between the two opening definitions, then, gives rise to a moral dilemma. In law, as incorporated into the Financial Services and Markets Act 2000, the independent financial adviser must act as the agent of the client, but agreements with product providers refer to the term agency in their Terms of Business Agreements, that is an arrangement involving the provider as principal and the IFA as agent to the principal.

The moral dilemma, therefore, was one of attempting to serve two masters, one being statutorily required and the other providing the main source of remuneration. It was a classic example of a conflict of interest, agent and principal or client and principle.

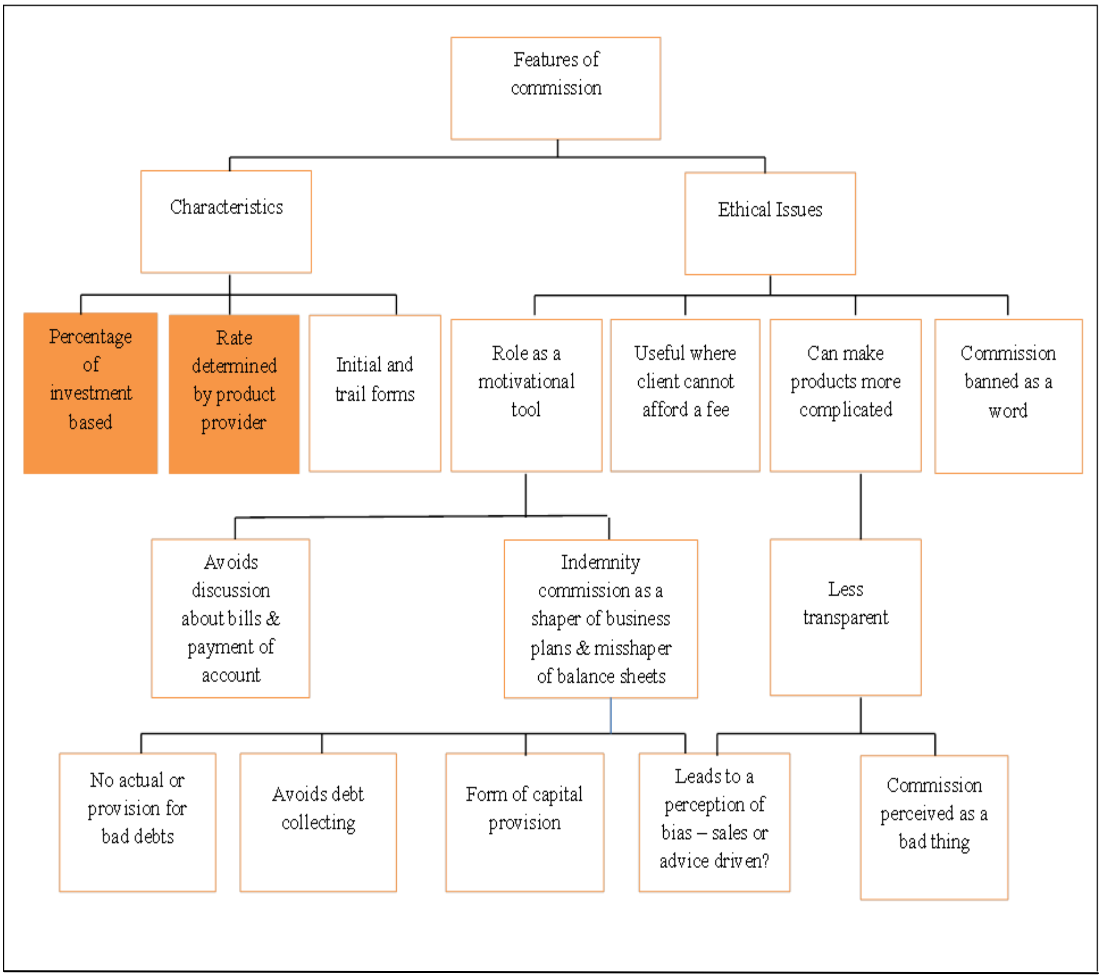


Figure 9 - Responses concerning the Features of Commission as applied within a Financial Planning Firm

<u>The Characteristics of Commission</u>

The Institute of Financial Planning's definition of commission, referred to above, is the definition most IFA contributors to this work accepted. Within financial services the level of commission payable was set by the product providers, although in more recent years this was subject to limitations encouraged by various financial regulators, the value of which was often disputed. Such arrangements were swept away by the implementation of the Retail Distribution Review, at least in theory (2012).

It was accepted that the payment of commission for business conducted by financial advisers was now banned. However, in the period leading towards these changes, that is prior to 31st December 2012, providers began suggesting that arrangements could be made whereby the level of initial commission could be reduced from as much as 7%, but more usually 5%, to somewhere around 3%. At the same time they suggested that they would be open to arrangements whereby the ongoing commission could become more flexible, ranging from perhaps 0.25% to 1% or higher. In encouraging this and convincing the regulator that the outcome of such manoeuvrings could fit a description of income to be known as adviser charging they appeared to be perpetuating the prevailing mind-set by tweaking the existing model.

Yet again we have an example of attempting the stay with an ages-old model that appears to have outlived its purpose, which was to serve the product provider and its agents, but excluded consideration for the consumer other than in the capacity of a source of remuneration. Is this not further proof, if any were needed, that Kant's principle of avoiding using people as just a means to an end is being circumvented?

Before moving on to consider the wide range of ethical issues which resulted from these meetings, it may be enlightening to consider the words of the divorce-focused IFA concerning the payment of these ongoing commission/fees –

> *"I don't normally take trail, because if I keep taking trail that means that I have to keep reviewing those clients. In 70% of cases they probably don't need reviewing every year, in the nicest possible way, because we set up their pension so that it doesn't need reviewing, so that they had the opportunity to not have money stripped out of their plan and also if I have to keep doing reviews it means that the amount of new work that I can take on is limited." (IFA6)*

In saying this she is questioning the ethical basis for the continuing Adviser Charge when there is the lack of a link between the inflow of cash and the provision of a service to justify it. Whether she is correct in her assessment that clients do not require ongoing advice is another matter, particularly when she belongs to a firm of IFAs demonstrating competences across a broad horizon of financial planning skills.

The Ethical Issues

A major concern amongst consumers, referred to later, is that remuneration linked to the volume or magnitude of sales can distort the shaping of business plans (FSA 2013). Amongst the IFAs who contributed, there was less discussion on this. In response to my asking "do you think there is a driver within some organisations with regard to commissions", this adviser's response was as follows:

"You mean somebody might recommend Product A rather than Product B because somebody might pay more commission for product A? So might advisers be influenced by commission - I haven't seen any hard evidence that supports that, but I've heard sufficient scuttlebutt, anecdotal evidence and I've seen enough clients come in with a bond structure investment (attracting initial commission of up to 7%) where actually, a general account would do. A direct investment into a unit trust paid a commission of 3%, whereas a bond investment could pay anything up to 7 or 8% - sometimes higher – you have to draw your own conclusions, but I would be very surprised if there was no evidence of commission playing a role in influencing the outcome to the client" (IFA3)

The point here is that the contributor is discussing whether recommending one product over another might be influenced by the level of remuneration that each generated. He is not taking into account that the better outcome for the client might be to recommend an action which does not include purchasing a remuneration-producing product or indeed any other product, other than advice.

However, the evidence referred to by this IFA was provided by the outgoing regulator. In their paper *"Final Guidance: Risks to customers from financial incentives, January 2013",* the Financial Services Authority wrote of their 2011 review,

"We know that the way sales staff are paid influences how and what they sell to consumers. Equally, we recognise that firms may want to incentivise their staff to sell. We do not have a problem with incentive schemes, but they must never be at the customer's expense and the risks need to be managed properly. Consumers must be confident they are being sold a product for the right reasons.

Our review found that most incentive schemes were likely to drive people to mis-sell and these risks were not being properly managed.

Later in the same paper the FSA recorded their latest findings saying,

"The (2012) review shows that most firms have incentive schemes that can drive mis-selling and do not have effective systems and controls in place to adequately manage the risks. We are concerned that 20 out of the 22 (large) firms we assessed had features in the incentive schemes that increased the risk of mis-selling – in six cases the risks were significant and one of those six was referred to the FSA's Enforcement and Financial Crime Division.

IFA3 further explored the topic in a way that considered, amongst other issues mentioned, that the way in which commission was, and in the case of protection policies and some pension schemes, still is paid, shaped the overall framing of organisations' business plans. The practice of paying commissions as an immediate lump sum representing the annual premiums payable, perhaps over a forty-eight month period, is known as “indemnity commission”. Ethically, however, how that “income” is recorded in the accounts of the firm raises considerable concerns.

The requirement for IFA firms’ accounts to undergo a full audit process has been long since abandoned, so accountants are required only to prepare accounts based upon the information provided to them by the firm. Therefore, the income figure provided to accountants by the firm is taken at face value and whether that sum should be discounted by a sum representing the unearned element is not revealed. You may consider that these are accounting technicalities and of little importance. However, if some of that unearned commission, (it cannot be described as a fee by the very nature of its lack of permanence and attribution to an activity) is clawed back in a later year, perhaps because the client has decide not to continue with the contract, or has reduced their contribution, then the reality would be that the original profit was overstated (because the income recorded was not the income resulting from that business in that year.) Furthermore, the working capital recorded in the balance sheet for the firm, that is the difference between what the firm can reasonably expect to receive soon from those who owe it money, plus cash to hand and those to whom it must pay money shortly, is overstated, because the sums that might have to be repaid at short notice to the product provider are not recorded.

Working capital is a way of determining whether a firm can meet its short-term liabilities; if it appears that it can it is described as being solvent, but if it cannot it is cash insolvent. Hiding the latter can at best be described as unethical and at worst wanton criminal deception. It could also simply be confirmation that the majority of IFAs, despite their title, cannot understand a set of accounts and/or the relevance of those accounts as an important tool in the management of their own businesses.

In the past advisers have considered that the practice of indemnity commission was a suitable way of overcoming the need for IFA firms to provide their own start-up capital. A quick look at a sample of their balance sheets would have revealed that the majority had ordinary share capital of £1. The more recent regulators have insisted upon firms maintaining a minimum level of £10,000 of capital, which most IFAs appear to translate into a need to retain £10,000 in cash. What if the cash to hand is partly or substantially sourced from indemnity commission. In times of economic difficulty claw-backs of commission begin to devour that cash, and more, as product providers demand the repayment of portions of unearned commission, the result of clients re-evaluating their insurance, pensions and saving needs. Would that development have the effect of shaping the business plans of the firm by selling more products carrying indemnity commission as it attempts to survive a cash-flow crisis, one whose potential should have been identified in their balance sheet, but was not?

Cash flow crises have the potential to inculcate panic, at both an individual and corporate level, leading to thought processes diverting towards claims that the end justifies the means. This can and often has led to products being sold to consumers which satisfy the need of the adviser, but not the client – Kant's first and second ethical principles swept aside in the name of survival – and at the heart of the problem lies the payment of commission, in whatever guise.

What is more it was intimated that in terms of commission a lot of clients didn't really understand what was happening to them.

> *"Advisers disclosed commission and I don't think it was an issue – but then I don't think they (the client) understood what was happening, especially when you think about it in the investment market - someone writes out a cheque for £100,000 and they see £108,000 invested in their policy document and at the same time the adviser's walked away with 6% or 7% and clients think, "well look I've got £108,000 in this product", and I don't think people understood." (IFA5)*

If you find the numbers in that extract confusing or complicated you will not be alone. Indeed, one of the outcomes of these forms of commission payments was the sheer complexity of the charging structures built into the policy documents, with rules about what would happen if withdrawals above a certain percentage were undertaken within different time-spans and the rights of policyholders over what had originally been their investment. Add to this the language used at the insistence of regulators with regard to estimates of values over particular time-spans under certain conditions of growth , charging and total exiting requirements and to say that the investor needed a considerable amount of faith in the robustness of the process was more than an understatement.

Transparency is the aim of the present regulator and a lack of it is considered unacceptable, but is it unethical per se or is it the result of a series of processes, all commission-related, which have led to unintended consequences, with some having the appearance of being unethical and others simply self-interested deception?

Summary and Observations

Whilst some IFA contributors were prepared to admit that in the minds of consumers the payment of commissions might be seen as skewing the nature of the advice provided by advisers, not one referred to the idea that this might also infuse the process with conflicts of interests, that is the attempt to serve two masters referred to at the beginning of this chapter. They did concede that it was generally seen as a "bad thing," but did not acknowledge that commissions were never paid for advice, per se, but only upon the sale of a product – that is commissions and phenomena bearing similar characteristics exist within the domain of selling, as opposed to advice or professional guidance being the primary motivation.

Very little was admitted with regard to the probability that commissions skew advice given to consumers, although further interrogation of the transcripts confirmed the potential for the need to survive driving the less scrupulous or desperate advisers towards the sale of income-bearing products as a matter of self-interest as opposed to client need. The FSA's "Final Guidance" suggests as much.

An argument in favour of commissions was made on the basis that some clients could not afford fees, but given the inability of most IFAs to assess the basis for an appropriate fee, this was lacking in robustness. Indeed knowledge of marginal costing techniques, referred to in Chapter 3.3, and a fundamental of an Accounting and Finance course, would contradict such an assertion and pave the way for suitably priced pro bono publico strategies.

Changes in the amounts which might be subtracted or deducted from investments initially and, as a new innovation, regularly thereafter were recognised. Did that mean that in reality there has been a wholesale move away from commission payments? In other words to what extent has there been a change from commission to fees and is the term Adviser Charging merely a grammatical subterfuge leading its adherents towards oblivion. Are IFAs the authors of their own impending malaise?

What is clear is that remuneration by commission avoids the accumulation of manifest bad debts or any discussion with clients regarding bills and their method of payment. Conversely it fails to identify where the cost of the work undertaken exceeds the remuneration, thereby failing to offer the adviser the opportunity to ensure profitability or at the very worst avoid loss. It is effectively a manifesto for muteness, not dialogue, opacity not transparency, with the lack of transparency pertinent to both the IFA and the client.

Overall, there was consistent evidence that commission-based remuneration was fundamentally a sales-oriented business, which may not be a surprise, but does fly in the face of the term "Adviser." What has changed or needs to be changed?

What should be evident from all of this is that a business model that links its future income streams to the fluctuating fortunes of stock markets driven by forces far beyond the control and, for the most part, beyond the understanding of the sector is flawed. The table overleaf, sourced from the Office for National Statistics records two FTSE indices standings at the end of each year listed, with year-on-year falls indicated in red.

Year	FTSE 100 Index		FTSE-All-Share Index	
	Index	% Change	Index	% Change
1985	1413	14.7	682	15.0
1986	1679	18.9	833	22.1
1987	1713	2.0	870	4.5
1988	1793	4.7	927	6.5
1989	2423	35.1	1205	30.0
1990	2144	-11.5	1032	-14.3
1991	2493	16.3	1188	15.1
1992	2847	14.2	1364	14.8
1993	3418	20.1	1682	23.3
1994	3066	-10.3	1521	-9.6
1995	3689	20.3	1803	18.5
1996	4119	11.6	2014	11.7
1997	5136	24.7	2411	19.7
1998	5883	14.5	2674	10.9
1999	6930	17.8	3242	21.2
2000	6223	-10.2	2984	-8.0
2001	5217	-16.2	2524	-15.4
2002	3940	-24.5	1894	-25.0
2003	4477	13.6	2207	16.6
2004	4814	7.5	2411	9.2
2005	5619	16.7	2847	18.1
2006	6221	10.7	3221	13.2
2007	6457	3.8	3287	2.0
2008	4434	-31.3	2209	-32.8
2009	5413	22.1	2761	25.0
2010	5900	9.0	3063	10.9
2011	5572	-5.6	2858	-6.7
2012	5898	5.8	3093	8.2
2013	6749	14.4	3610	16.7

Table 6 - FTSE 100 Year-end Closing Values

The effect in years where there is a fall is a serious reduction in cash inflow. Where subsequent years do not return the ongoing income to its pre-fall levels that reduced cash inflow could force the firm to contract or cease trading altogether.

Furthermore that income model ticks few of the boxes required in the modern world of financial planning and offers little opportunity for ensuring that financial planning businesses have a long-term future, which is bizarre because according to the Economist's Fund Management Briefing (3/5/2014),

> *"Whilst most other industries have been commoditised so quickly it has been easy to eliminate intermediaries…in the financial sector, by contrast, intermediaries are remarkably persistent with, according to The Investment Company Institute, 80% of American retail investors paying for advice (Economist 2014).*

Note that the article refers to the acquiring of Exchange Tracker Funds (ETFs) which do not pay commission to advisers, but do demonstrate attractive yields and low costs.

So what is stopping IFAs in this country from moving away from sourcing their regular income streams from products' performance and essentially commissions, even if another euphemism is engaged? In the next chapter we look at IFAs' views on what they consider to be the barriers to the future existence and/or development of their sector, wherein we might discover the answer to the question.

3.5 - Perceived Barriers to Future Financial Success and Development in the Independent Financial Advice Sector

Summary of main themes discussed in this chapter

- Regulatory costs as a barrier
- Competence and culture within the financial planning sector
- Product provider factors seen as impediments
- The need for a professionally structured independent financial adviser organisation

Introduction

Before continuing this review of IFAs' comments, observations and thoughts determining the point we have reached on the journey to completing this work's purpose may be useful. So with this in mind a copy of the diagram appearing in Methodology and Methods (Chapter 2) is shown overleaf.

The objectives stage (highlighted in blue) is the point being addressed in this Part (3) and the next. So far we have considered IFAs' thoughts and ideas in relation to their organisational structure and roles and whether attitudes to the nature of fees and commissions have a particular bearing upon the future success, development or, indeed, survival of IFAs.

The following diagram structures the themes contributors generated relating to perceived barriers to that future.

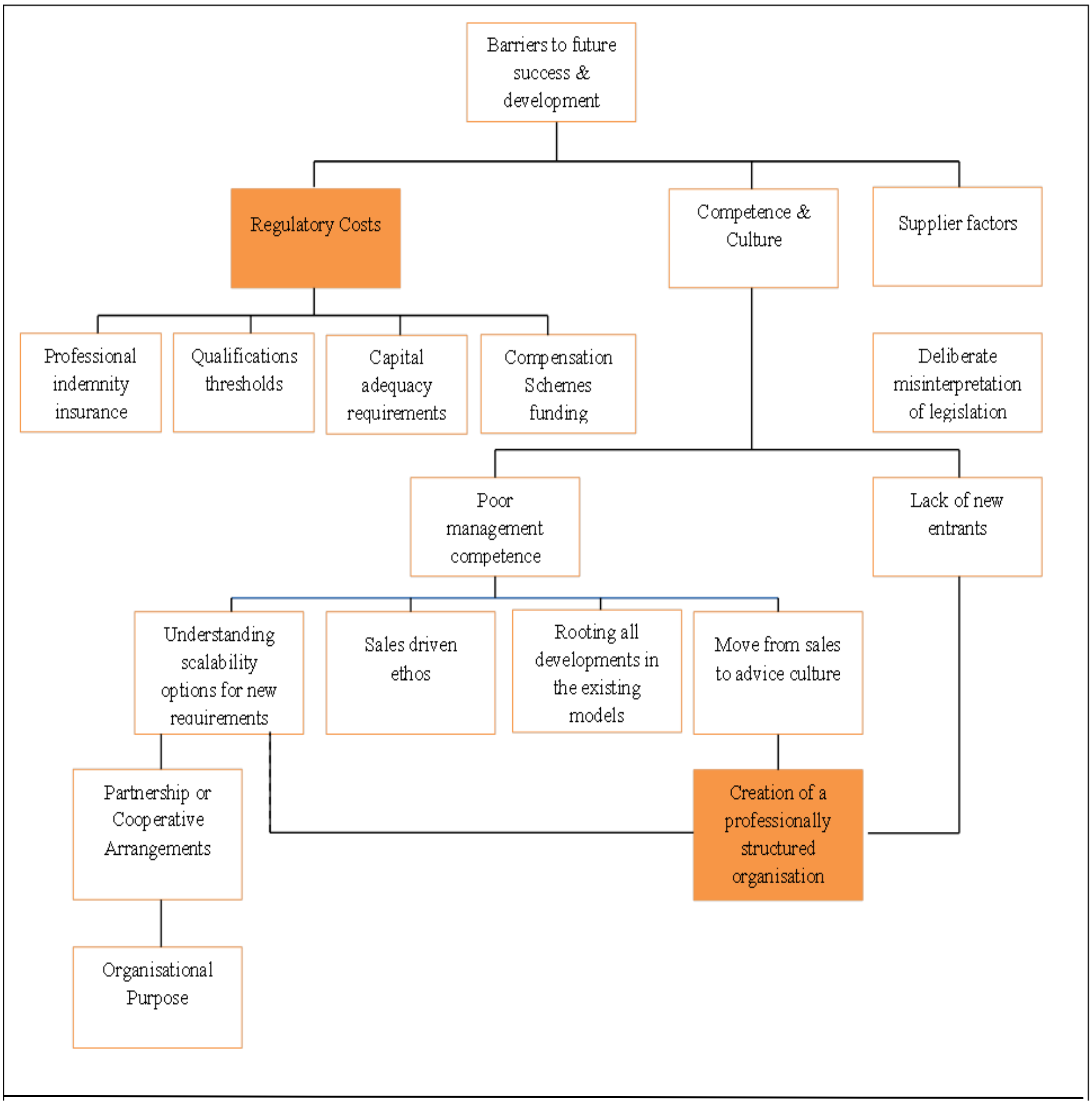


Figure 10 - Perceived Barriers to Future Financial Success & Development in the Independent Financial Advice Sector

Regulatory Costs

In its Position Statement on Professional Regulation the UK Inter-Professional Group, to which the Chartered Insurance Institute was a signatory, but the Institute of Bankers or its successors were not, stated that it is important to understand the role of regulatory or similar bodies and to see that role in the context of a spectrum of regulatory mechanisms. Those roles were recorded as including assuring the quality of professional services in the public interest and the investigation of complaints and disciplinary sanctions for professional misconduct (UK Inter-Professional Group, 2002). However, it emphasised that professional regulation cannot be a substitute for systems of civil redress. So there was some confusion about how various professional body regimes would work together on the ground, with particular reference to the wide-ranging powers granted to the Financial Services Authority in relation to financial regulation and its ability to judge and exact penalties.

The costs of regulation were one of two main general causes identified by IFAs as a barrier to the future success and development of the IFA sector and as the diagram shows directly related requirements of regulation, as opposed to interpretations, were divided between professional indemnity insurance availability and cost, the increased qualification threshold requirements, the increased capital adequacy levels and the cost of funding the Financial Services Compensation Scheme together with the Financial Ombudsman Service.

In this those contributors were supported by at least one representative of a product provider who observed,

> *"I'm not saying that the regulations are wrong or that they've gone too far, necessarily, but I think it's the way that it's being rolled out and the rate of roll-out is probably a bit too extreme and I would probably say there's too much of a financial burden put on financial advisers firms – again I think there's more the government could do, maybe if we weren't in such austere times, to kind of support financial services and the regulations and the qualifications, etc that are needed. I think I'm right in saying that financial services in the UK is one of the biggest service industries, it's hugely important to the economy and not only to that but it's hugely important to those people who live in that economy and yet the government in the past have turned a blind eye to certain things because they know the value that the financial services adds to the economy; maybe they should concentrate on doing less of that and more of supporting from a regulatory perspective, so that the costs of advice, the costs that are incurred by firms, providers etc are more balanced and supported – that's one way that they could potentially reduce the barriers to advice." (PP2)*

Professional Indemnity Insurance

As IFA7 emphasised, professional indemnity insurance cover is a legal requirement for IFAs, but whilst the regulator cannot force any insurer to offer cover if they choose not to do so, a change in the regulatory requirement for cover to be provided can have the effect of driving insurance companies out of the market, or at the very least raising the underwriting thresholds for acceptance.

A particular example of such difficult changes to requirements is retrospective regulation, that is deciding that what was not formerly proscribed could now be so and determined for business already written.

The point being made here is that by the time a regulator identifies a problem it has often been festering for some years. In identifying the perceived problem they do not necessarily quantify the extent in monetary terms, because the practice may have been widespread and that makes it difficult for professional indemnity insurers to assess the appropriate premium to charge.

This was what occurred with the lifting of restrictions on the ability of members of employer sponsored pension schemes to transfer the funds in those schemes to the employees' own individual personal pension plans. This relaxation of the rules was hailed, at the time, as giving individuals the freedom to make their own choices. (Readers may now hear an echo in relation to the recently mooted idea to allow plan holders to take all of their pension funds when retiring and not have to use them to buy an annuity.)

Insurance companies at the time had their own large sales forces, in addition to running an agency system of brokers and advisers. They saw an opportunity to maximise the opportunity to acquire access to vast but previously unavailable pension funds holdings and comparatively excessive commissions were paid out to encourage their salespeople to persuade investors to transfer their funds, often, but not always, to the considerable disadvantage of those members of employer-sponsored pension schemes. By the time a regulator had identified the problem, egged on by an excited but ill-informed press, the problem had become enormous and professional indemnity insurers exited the market in droves.

Compensation for losses was demanded by press, government and consumers, but under what terms; a test case in the High Court to determine the position in law regarding fault, compensation levels and process for past perceived misdemeanours, perhaps? Well not if a previous government's responsibility for providing the opportunity was to be avoided, despite the fact that at the time no professional regulatory issues were involved.

So the regulator of the time was empowered to introduce retrospective legislation and oversee a very expensive review process, which provided substantial income for actuaries and drove even more professional indemnity insurers from the market.

Surely a test case could have cut out the middle section of this process and created the compensation framework needed in a way that reflected the law of the land, which this review did not and still does not (see Sir William Garrow, 1760-1840 – a man is innocent until proven guilty (Hostettler and Braby 2010).)

Indeed, the Payment Protection Insurance (PPI) scandal was addressed by the courts and the main perpetrators, banks and insurance companies were obliged to pay compensation from their own coffers rather than through a system of collecting a general charge placed upon every member of the financial services sector.

With the benefit of hindsight it could be argued that had a professional class of adviser been predominant, one capable of exercising ethical as well as technical influence upon the market, the negative consequences arising from the legislation and activities of pensions misselling could have been identified and avoided. It is notable that IFA involvement with PPI selling was negligible and such a negative correlation may provide some support for this notion.

A characteristic of a professional indemnity policy is that it only covers the insured organisation during the currency of the particular year, so refusing to renew a policy enables the insurer to walk away from any problems which were germinated during that year, or previous ones. That is why if a potential crisis is perceived the temptation is for insurers to walk away from the market, the belief being that they cannot possibly turn a profit during such times. The nadir of the market was reached with the unintended consequence of the implementation of the aforementioned government inspired review of pensions being that a very large number of IFAs were unable to obtain a renewal of their policies and were effectively barred from trading. Such was the magnitude of the problem that the regulators were obliged to allow continuation of trading by permitting the exclusion of certain types of previously required cover in the policies to encourage insurers to remain in the market, which was the very opposite of the aim to protect consumers from the effects of inappropriate selling.

Despite these comments most contributors did not make an observation on the impact of professional indemnity insurance costs and availability, which may mean that they do not see, or perhaps recognise it as an impediment or simply that their renewal date was some way away at the time of our meeting.

Qualifications Thresholds

The Oxford English Dictionary defines “qualified” as, *officially recognized as being trained to perform a particular job*. The UK Inter-Professional Group determines that their definition of the word “professional” is,

> "*An occupation in which an individual uses an intellectual skill based on an established body of knowledge and practice to provide a specialised service in a defined area, exercising independent judgement in accordance with a code of ethics and in the public interest.*"

In the latter's view, therefore professional status is conferred by more than simply being trained to perform a particular job, which whilst being useful in itself is not a complete fulfilment of the requirement.

What was noticeable in reviewing the contributions provided by IFAs to this work was that they all limited themselves to remarks regarding the sector's qualification requirements, but did not extend beyond that.

In considering regulation costs in impedimentary terms it was noticeable that remarks concerning the raising of the qualifications threshold came only from those IFAs (IFA2 and IFA7) who held the minimum qualifications, that is at QCA Level 4. However, both agreed that raising standards was a necessity. The remainder of contributors had attained qualifications equivalent to at least QCA Level 6, with many having gone even further, so perhaps for them they did not recognise as a barrier any increase in qualification thresholds, because they believed they would already exceed any such raised threshold requirements. Neither, though, did they suggest that it was a positive advantage to have gained degrees, both at first and post-graduate levels.

Yet, in an article written by Ian Smith, an IFA holding a Master degree in Financial Services (Financial Planner, May 2014), the suggestion was made that professional qualifications were not enough – he advocated the inclusion of academic qualifications to assist development of the sector through an ability to think outside the box, that is education on a broader spectrum, an issue considered further in the following chapter (Smith 2014).

Capital Adequacy Requirements

Recognition that proposed revised capital adequacy requirements, demanding that firms of IFAs have a minimum of £20,000 of assets available in the business, was only mentioned in passing by the same two IFAs who, as recorded in the previous paragraph, provided feedback regarding increased professional qualifications. Neither saw it in particularly negative terms, with one saying it was an issue at organisation level, whilst the other said that as it stands at the moment,

> *"I really do not understand why the regulators even worried about five grand, ten grand, twenty grand because the claims you're going to get, if they're five, ten, twenty thousand, most firms can raise that sort of money - a lot of IFAs would just have to sell their car of course, the Porsche would*

> *have to go – so I don't see the relevance of that; I don't see how that is going to make any difference." (IFA2)*

It is doubtful if such comments would go unchallenged in most business organisations, where the Return on Capital Employed could be seriously undermined by a policy which saw £20,000 or more allowed to lie fallow to satisfy the apparent whim of an EU inspired piece of regulation. That such comments within the IFA community are made might suggest that whatever consideration is given to this requirement highlights a lack of management technique and curiously, once again, relates to a financial metric, which, if the title is to be believed, should fall within the boundaries of their expertise.

One of the underlying purposes for this increased financial requirement was an attempt to ensure that firms were in a position to meet compensation demands where they fell due. With excess clauses of £5,000+ in respect of each and every claim written into professional indemnity policies the regulators' concerns might be considered over-cautious where the average compensation awarded by the Financial Services Compensation Scheme is approximately £5,800 (FSC Scheme, 2013).

Compensation Schemes Funding

The issue of being obliged to underwrite the costs of the Financial Services Compensation Scheme and fund the costs of running the Financial Ombudsman Scheme attracted robust observation on fairness and financial impact. It was thought that it needed serious reworking, because in its present form it was considered absolutely unfair with compliant firms picking up the bill for poor advice from previous less scrupulous and often subsequently liquidated firms.

The scale of the frustration is exemplified in this quotation,

> *"We, in our firm, none of us recommended KeyData, none of us recommended Archcru (a scheme encouraging consumers to invest in wine), none of us recommended structured products, very few, and we have very strict compliance regimes about what we did and what we didn't do and yet our financial services compensation scheme bill this year has been phenomenal, it's been many thousands, tens of thousands of pounds and yet we are a firm of IFA's all of whom are practically, nearly all of us are chartered. Most of us are specialists in our field and it's just so unfair that we have to cover the costs of people who have left the industry and couldn't give a flying whatnot" (IFA6)*

What is not recounted in this outburst is how that cost, which is in essence a premium for an insurance scheme to ensure that consumers who are adjudged to have been mis-sold products are suitably recompensed, is passed amongst that pool of beneficiaries, namely the consumer. Such a mention would provide a link between cost and fee charged, it might be argued, with the IFA resorting to being the broker in the scheme and the pool beneficiary (consumers) the premium payers.

What is mentioned is the degree of qualification and expertise present in that IFA's firm and the inference that that ensured that "fringe" schemes and products were avoided to the benefit of clients and the firm's reputation.

As mentioned earlier, it might also be argued again that speed of response by regulators to the possibility that unacceptable practices were in play would limit the scale of the pool of compensation required, driving the unscrupulous out before too many consumers are drawn into their webs and thereby reducing the heavy burden placed upon firms who have sought to maintain robust practices. Perhaps an area that would be suitable for a representative independent professional body to address?

Competence and Culture

If Smith's views (Smith 2014), referred to at the conclusion of the section covering regulatory costs, were given greater attention it might address the concerns of IFA3, an existing professional body representative. He referred to the IFA sector as a cottage industry where the standard of business management within it is so low that he and his colleagues joke that most businesses don't know the difference between profit and turnover. In his view,

> *"Most financial services firms aren't businesses at all, but a bloke in his bedroom and the difference between self-employed and unemployed or unemployable is just a question of debate." (IFA3)*

He felt that the quality of the people in the business was a critical impediment to, not simply the success and development of the IFA sector, but to its entire survival.

He extended his thoughts on the scalability of advice by saying,

> *"If I was one of the "Dragons" with £1 million or £2 million or £10 million or £50 million to invest in a business, would I invest that in a business that was trying to develop or deliver independent financial advice to a market. My answer would be "no" because I might be better making plastic widgets with the return of capital versus the risk within that market; I think that is the single biggest barrier, is the challenge of scalability to attract high-quality business capital, both in terms of the money and the intellectual property. When Richard Branson invests in independent financial advice we'll know it's an accessible and scalable market, but until he does it's not and so a big firm will be five advisers.*

Of course, these comments ignore the fact that plastic widgets of whatever type will have a limited life-cycle, but the demand for advice and guidance would appear to be perpetual and offering a manufacturing analogy is interesting in itself when some believe they are working in a professional sector, not an industrial one. It is also certain that the cost of capital employed in widget production, with substantial assets recorded in the non-current assets section of the balance sheet, is substantially higher than that applicable to financial planning operations, which tend to exhibit very little in that part of their financial records.

The challenge, reflected throughout this work, is not just how to charge for advice in such a way that businesses are permeated with a long-term future, but how to encourage financial planning firms to employ that method. This is despite general agreement amongst contributors that the pervading culture of an industry committed to selling tends to beget short-term relationships, whereas advice provides the basis for a long-term continuum.

Whilst that contributor's thoughts appeared to suggest that the future for the IFA sector was bleak, IFA2 felt that with adjustment the Promised Land could be reached. In his view the current context does not favour small IFAs so more banding together, perhaps in the form of cooperatives, might be the answer.

Organisationally operating in collectives would mirror the way that solicitors first merged where lots of one-man bands or partnerships would just take on another partner or another office, but came together so that they could share common costs and expertise, he felt.

> *"I think there's scope for us to do it, a bit like a barristers' chambers – I think that initially that would work – I think that's probably the old-fashioned, now, way of looking at it and the way I was looking at it certainly was that – I think the more modern approach will be the truly getting together as a limited company to limit the liability, then to have shareholders or whatever within that company to share based upon turnover or whatever and perhaps a fluctuating thing, so that each year as your turnover changes, therefore your profit share changes so your shareholding may change. The way of redistributing income within it based upon what your turnover is."*

The two IFA perspectives, whilst considering the same material, arrive at very different conclusions regarding the possibility of survival and development in the sector. In their report, "UK Wealth Management at Tipping Point?" KPMG (Sayer and Brown 2012) said that the wealth management sector must move towards greater client engagement through the use of teams and technology to build relationships between the client and the firm, not just the relationship manager. A failure to do so would allow new competitors using relationship-led models to threaten to take share from the incumbent product-led firms by providing holistic financial planning advice as a gateway to orchestrating other wealth management services, thereby targeting a share of the client wallet rather than pure asset gathering. That KPMG felt that the financial planning sector was already beginning to benefit from reorganising along cooperative lines and saw this as the only way forward for the wealth management sector says much by way of support for the second of the two contributors' remarks (Sayer & Brown 2012).

Would assistance from academic sources help in providing answers – well this writer certainly hopes so, but would that assistance have a genesis in existing models or present a completely new landscape? The former offers opportunities for evolution, whilst the latter might involve revolution.

However, if the former attempt at change is invoked too slowly it will suffer from strategic drift, which inevitably leads to the latter, but in an uncontrolled way (Johnson, Whittington et al. 2011). Academics versed in the dark arts of change management will recognise the challenges presented in both respects, but if the absence of a practical model for scalability is considered a barrier then change is essential, although, if the KPMG observations are correct then the IFA sector is closer to the answer than it currently understands. Furthermore, scalability should not present the problems which appear to exist in the minds of the adviser contributors if a report published by WRAP is to be accepted (Cox, Hawke et al. 2011).

If KPMG are overstating the position within the financial planning sector and the concept of poor management competence is the more accurate then the latter will include an inability to understand how to bring new thinking to the sector, or to build upon existing but little-used models. This IFA and professional association representative serves as confirmation of the depth of the difficulties, from his perspective.

> *"The barrier for me the barrier is us restricting ourselves, is our thinking – because if you were starting again and you came to this sector and there were no advisers at all and no one ever took advice, you would look at your consumer and work out what your consumer wants and base it upon that. Well what we keep on doing is trying to take historic models and make them work in this new world." (IFA5)*

Other equally supportive IFAs, in the sense that they express a desire and need for major change within the sector, have emphasised that in their view thinking outside the box means thinking outside of the "sales mentality" box, which is Smith's point. Can such a culture change be achieved within the existing members of this community of practice or will it require the recruitment of better educated people focusing upon a profession as opposed to a career in selling? Furthermore, should such consideration be undertaken by those who are already members of the existing regime and who might have an interest in maintaining the status quo, or by others with a wider view, which description sounds like a recipe for a more cerebral regulator and a truly representative and independent professional body?

The majority of IFA contributors see the lack of a professionally structured organisation as a major barrier to the continued existence, development and future success of the IFA sector. As one contributor noted,

> *"You can't transition salesmen to a professional fees-charging environment just by giving them qualifications – it just doesn't work." (IFA2)*

Another concurred saying,

> *"We're trying to become a profession – we will need to be – we will need to be properly educated – we can't be old-fashioned commission hungry salesmen any more – you just can't operate like that." (IFA6)*

The recognition of the need for change, which infers culture change, was couched in cautious terms, because it was noted that it is difficult to teach an "old dog new tricks." There was a general awareness that the average age of advisers is in excess of 55 and that there will be a critical need to attract new entrants. The creation of a professional cadre of IFAs, would, it was thought, provide the framework for the promotion of a professional career path which would receive the attention of academically qualified younger people, whose educational abilities could form the basis for the development of that profession in a way which addressed the needs of consumers.

KPMG's observations (Sayer and Brown 2012) suggesting to members of the Wealth Management sector that holistic financial planning and advice models are the way forward should be compared with a provider contributor's comment that,

> "*I think that by 2015 we'll see about 2000, maybe 2 to 2 1/2 thousand only remaining as independent financial advisers - The majority, seven or 8000 will evolve to the restrictive advice model because the rigours of RDR will be a lot less if you are a restricted firm. Those that do get it right, those that do work out the proposition to find the right clients segments, find out how to deliver that proposition to those customers effectively and to maintain the relationship and build that trust, I think there's a real opportunity for those that get it right so I think we will see a fragmentation in the marketplace." (PP1)*

KPMG's remarks tend to gel with what is being expressed by younger, better qualified IFAs, whilst the provider's take reflects the belief that nothing much will change and that the existing sales-based model will continue to be delivered by sales-motivated advisers. Couched in marketing concepts the new breed of IFA is willing to think in terms of client needs if a practical way to do this can be found, whereas the existing model supports the needs of the providers.

The issues here are those of education, experience, qualification and continuing professional development, to which we turn in the next chapter, and the perceived and apparent needs of those consumers which follow in Chapter 3.8

Practices of Suppliers

In her submission on this topic, a member of a multi-member IFA firm expressed her disappointment concerning the interpretation of rules arising out of the implementation of post-RDR discussions. She thought that it was the misinterpretation of legislation by individual providers which was slowing them down. Why, she mused, is there not one common, transparent determination of what the requirements were so that they could be understood and applied universally? She was particularly unhappy and questioned the morality of providers who were planning to cease making trail payments to IFAs, quoting RDR as a basis for this, but not passing that saving on to the investor, saying,

> *I'm normally not normally that cynical, but I think there's a lot of that happening too. I don't mind if the money is going back into the client's pot so they're saying well we're not going to pay you, the IFA, that £1.30 per month – we're going to put £1.30 back in your client's pension (which isn't happening) - well I'd be very happy with that and I think most people would be, but I just think that RDR is just an opportunity for some providers to increase their margins and also put their charges up, their fees up."* (IFA6)

Does this amount to a barrier to the future success and development of the IFA sector, or is it more a question of integrity and honesty, which may impact upon the future relationship between suppliers of products and independent financial advisers? Perhaps it is simply a matter of a cost to the IFA sector arising out of a regulatory change and an indication that in future IFAs should sup with a longer-handled spoon when dining with providers.

Reflections upon the perceived barriers to future financial success and development in the IFA Sector

In Chapter 3.3 I referred to the absence of any mention of the cost of regulation informing the calculation of fees. Included in IFAs' observations on the barriers to their future success or avoidance of failure, none made any mention of the extent to which the cost of regulation might impede upon that success. Much was said at a general level, but there was little sense of whether they actually understood the relationship between this cost and how its acknowledgement and incorporation into the new fee structures might shape, for better or worse, that future.

That the costs of regulation should be cited by many contributors as a barrier to future development and success is not surprising. It is hard-wired into the culture of the IFA community that compliance requirements equate to restrictions on selling practices and therefore income, whilst any suggestion that sound compliant practices might provide a rigorous platform for the development of long-term relationships with clients went without a great deal of comment. What was surprising, given this strength of feeling, was the lack of the provision of specific costs examples to support these claims. Even where the quoted impediment was in the form of a time requirement, nobody, IFA or product provider, linked the time spent by staff in addressing issues related to compliance, such as file checking, editing of draft reports and suitability letters and half-yearly (GABRIEL) returns to the regulator as part of that cost and as such part of the fee which should be recharged to clients.

The expression of a need to create a body of truly professional financial planners and guides was more consistent with most IFAs' desires to ensure their place in the future of the financial services sector. How to convert that wish into the desired outcome was not articulated by those contributing directly to this work, but conversations with individual IFAs who have taken their master's degree in financial services suggested that there exists a proto movement within some academic circles to encourage the formation of such a body.

Given that one of my contributors had spent the past two years attempting to create such a body, but had failed to gather a critical mass of supporting IFAs , it begs the question is the heavily referred to desire of most contributors for such a body merely lip-service. If it is not then is the lack of momentum a product of the 90% majority of remaining IFAs being qualified only to the minimum benchmark requirement and as such representative of the old cultures, more concerned with sales than ethics, short-term gratification than long-term relationships. Does the lack of critical mass represent a permanent rejection or simply that the idea was ahead of its time. If it was ahead of its time then when will that time arrive and what will be the shape of that professional organisation?

The United Kingdom Inter-Professional Group, in their position statement published in 2002 said that those holding recognised professional qualifications and practising as professionals are expected to act with integrity, skill, independence and knowledge in a defined area of expertise. The Chartered Insurance Institute is a member of the Group so understanding the extent of the word "independent" and how it sits with them, as well as the majority of their members could prove illuminating and will be the subject of more scrutiny later in this work.

Perhaps just one final observation on the providers of frameworks of regulation would be germane before moving on. Since 1988 there have been four different regimes on regulation introduced by various governments of various political hues. For the financial adviser they have been the Financial Intermediaries, Managers and Brokers Regulatory Authority (FIMBRA), the Personal Investment Authority (PIA), The Financial Services Authority (FSA) and since 2013, the Financial Conduct Authority (FCA.) The average lifespan is eight years. The arrival of each one was heralded as the answer to all problems perceived to exist with the financial services sector, but was ultimately replaced on the grounds of not being equal to the task.

With such guidance and changes to requirements it might be suggested that if the ability to tackle root causes and address them is apparently beyond the competence of such gifted and well-paid organisations, why should there be an expectation that amongst the less-gifted operators a better outcome could be expected? And why does there need to be a body, such as the Financial Conduct Authority, sitting between the legislation and the professional bodies charged and accredited with the task of ensuring compliance. Is it this extra layer which represents an unnecessary cost or the accredited body which it might be implied is not considered to be up to the job?

Is it possible that IFAs could address their own problems by considering them from a moral and ethical stance and concomitantly remove the barriers which they believe currently exist? After all, if clients want the services of a IFA, but do not want to suffer hidden charges being deducted from their investments, then granting their wish by charging fees directly related to the service and which have been previously made clear before the relationship commences, provides not only transparency, but also the opportunity for the adviser to ensure that the cost of each service is recovered. At the same time the client is extended the ethical opportunity to recognise the worth of the adviser and pay commensurately. In other words the relationship is ethically founded and able to demonstrate that good ethics is good business for both parties.

The caveat is that for a new client to be in contact they have to be aware of the services which an IFA can offer. So, returning to the chapter diagram it is significant that what is missing from the identified themes is the failure to communicate those advantages to consumers, a fundamental of Lautenborn's 4C's concept. Furthermore we are now aware as a result of my own research, that of Ferry's (2013) and the CII's 2014 paper, "*The RDR and Consumers – the public's views towards the retail investment advice market*" that that failure is manifested in a very real way. This perhaps is one of the biggest barriers and a double one, insofar that, a) it fails to be recognised and b) consequently is not corrected.

A missing theme was any idea, from a product provider perspective, that they might be part of the problem, even though this has been expressed to me by a number of IFAs, particularly with regard to the one-sidedness of the relationship between the two. A constant theme in this chapter is that education, qualification and experience have a strong role to play in ushering in change and this we move to in the next chapter.

3.6 - The Future Role of Experience, Education and Qualification

Summary of main themes discussed in this chapter

- The nature and usefulness of experience in the financial advice and/or planning process
- Qualifications - how are they perceived and how are they employed in the development of experience
- Aspects of education as a developmental resource

Introduction

Before the implementation of the Financial Services Act 1986 discussions about education and qualification in the insurance industry were seen in an entirely different context. Local Chartered Insurance Institutes all appointed an Education Officer whose role it was to oversee the arrangements for students to prepare for and then sit the examinations of the Institute. Those examinations were largely focused upon insurance aspects, with only a minimal acknowledgement of what we would now call financial services. Furthermore, these local institutes were mainly supported by the plethora of insurance companies' branch offices which occupied and provided employment for towns around the UK. Insurance brokers, whilst accepted as members of these institutes, rarely held office as local institute presidents as these posts were reserved for local insurance company managers. In effect local insurance institutes were the domain of the insurance companies, whose employees were encouraged to sit the examinations of the Institute with a view to ensuring that the companies would continue to be provided with trained and qualified staff capable of running their branches in the future.

Where staff left the company to set up as brokers they left with the benefit of the training and education provided by their former employers and, of course, the prevailing cultures of those organisations.

When insurance companies discovered the power of computers and the internet local branch offices began to disappear, along with local jobs and the need for those companies to oversee the sitting of examinations for thousands of their employees; those employees no longer existed in their thousands. The impact on the local insurance institutes was profound – no longer were they the preserve of insurance company branch managers, because local insurance company branch managers no longer existed. Many local institutes merged and support came in the main from insurance brokers and increasingly from financial advisers. Requirements for an education programme slipped down the priority list, probably because as self-employed business people surviving by concentrating upon sales was more important.

When as a result of the Act a minimum standard of qualification for financial advisers was imposed the Chartered Insurance Institute found itself with a revived opportunity to profit from the sale of examination preparation kits and entry fees. This was provided directly to candidates, as opposed to being supported through local institutes, thereby avoiding any necessity for the institutes to refresh an active role of Education Officer. Where training was and still is provided it is done through the aegis of regional society or chapter meetings using case study discussion and presentations that are said to conform to Continuous Professional Development requirements, denoted in either total hours attended or points accumulated, according to the regulatory prerequisite of the day.

From the perspective of providing specifically for the financial services sector these have been very positive moves, particularly as they have been achieved at a time of immense structural changes within the wider sector. However, some things have not changed; many of those working now as financial advisers do so because their former insurance company employers no longer exist, but the cultures they acquired as members of those organisations do and that extends to a belief that experience is of paramount importance and qualifications are a bit of a nuisance, especially if you do not possess them, but are obliged to obtain them.

A prevailing problem is that the core constituent of the financial planning and advice community consists of men and women who have reached middle age and beyond and when they commenced their careers the concept of life-long learning had not been formulated. They had left school at sixteen, joined their companies and settled down to participate in careers which would eventually lead to retirement at 60 or 65, dependent upon gender and gradual movement up through the promotion ladder as opportunity allowed. Regular retraining and the taking of examinations in middle age did not enter anybody's thinking. That the survivors of this cohort have managed to address such enormous change says much for their robustness and survival skills, but whilst experience has been part of their survival mechanism it does not necessarily follow that it provides a pattern for those who follow.

In a discussion paper, "Time Preferences and Criminal Behaviour," a link between the level of education and the ability to be patient has been observed at least at a correlational level. The suggestion is that those who are better academically educated recognise that a reward taken early may not be as satisfying as one that is taken later or over a longer period of time and this is discussed later in the context of the independent financial planning sector, both as it exists and its potential future construct (Akerlund, et al. 2014).

What follows are some of the thoughts of financial adviser contributors on the subject of experience, education and qualification, intertwined with comments and observations from product providers and literature sources, contained within the framework of the following diagram.

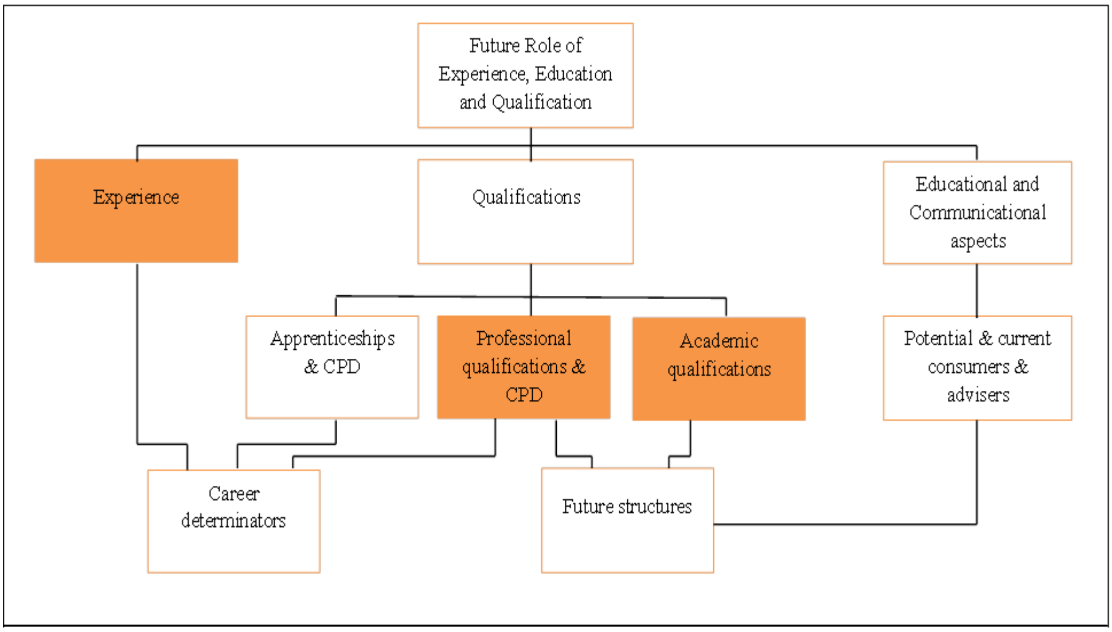


Figure 11 - The Perceived Future Role of Experience, Education and Qualification

<u>Experience</u>

So what is it that exercises the minds of IFAs most when they think about individual competence levels within the sector? The answer is experience. Almost every IFA contributor had something to say on the subject, more than any other within this topic of discussion.

By that are they discussing existing experience or the development of future experience? Are they referring to existing or future occupants of the IFA sector and in a context of a sales or an advice environment? Furthermore, is the term experience being used interchangeably with accumulated service time as opposed to the accumulation and marshalling of academic, professional and experiential skills?

In essence exactly what was meant by the term “experience” was not clear and contributors were relatively vague as to its precise meaning. However, it did seem that it was viewed as being an individual, as opposed to an organisational attribute.

In that vein an IFA qualified to the QCA Level 4 benchmark regretted that his forty years of experience had not been completely acknowledged by the new qualifications regime of the time, setting out a detailed explanation of what he perceives that experience to look like, whilst not mentioning that, in the past, all entrants to employment, including him, started without any experience.

> *"Well, unfortunately experience has gone out of the window with qualification – I do think that was a mistake – I think the fact that I had to do exactly the same number of exams and points as a new person into the industry seems a bit ridiculous. They could have quite easily have said, right, a point for every year you have been in the industry – alright they would have given me forty points, but that would have been only two exams – I would have still had to take a fair number of exams and if they could have been more specific in the areas that they would allow – I mean that the bizarre thing is that I did G60 (Advanced Financial Planning Pension Paper), got G60, I was then able to take a (Level 4) RO Pensions exam as well and get points for that – well how daft is that? So points for the sake of points – I'd already got exams, but had I been given some credits for the time I'd had in the industry like the ethics side of things, or the regulation side of things, something, I think that would have helped a lot of people along and probably made them more enthusiastic about taking more exams. Unfortunately, experience goes out the window – nobody seems to want to pay for experience, they want to pay for qualification – they then want to mould the salesman into their mould – that's the point, So I think going forward, I think experience will play less of a part, because everybody's deemed to be qualified – its back to that link again, that once you can call yourself a lawyer, qualified adviser, or whatever we're going to be called one day then everybody will be deemed to have the same ability. The fact that you may have been doing it for 40 years or 10 years doesn't seem to matter. I also see a whole wodge of graduates coming into the industry with lots of qualifications and no experience. I think financial planning is a lot about experience – very difficult to teach the perception you need to have in front of a client – the collecting of information they may or may not deem important, they way to ask the question, the way to get the answer and then the decision you make which may be against the client if you feel that the client's making a mistake. I've seen a lot of stuff coming out of the bigger boys where this is just – there's no perception there – there's the qualification – what they've done is absolutely technically correct from the point that they make the decision to do it. Unfortunately they make the wrong decision and I then get the client coming in and I'm saying "do you know this is this?" and they go "no"; is that what you wanted – "no". What did you want – "something completely different" – so there's something gone wrong with that perception and I think that the old training regime that you really had in the industry, you really started to call on IFAs, you got a good technical grounding and you also got that face to face – you know trying to find your way around an IFA trying to get business out of an IFA was always a very tricky occupation,*

but it did hold you in good stead, I mean a client was easy meat compared to that – you go and see a client and it was easy to find out from a client what they wanted – you just asked them and they'd tell you, whereas IFAs you used to ask and they didn't tell you – they'd say none of your business or I'm not telling you that. So that experience is starting to go – they're aren't those trainees coming through the system – there aren't those inspectors out there – they're becoming far more technical – there's that perception of the industry –that will carry on and it will be the fact that the bigger boys will be taking those sort of people on, arming them with full compliance, arming them with the full paperwork and then shoehorning the client into that perception. The problem is that a lot of the time the perception will be wrong, because they just haven't understood where the client sits in things like risk. I sat with the FSA on my beautiful Treating Customers Fairly interview and they said to me "how do you assess your client's risk" and I said the same as I've always done – with a huge amount of common sense, I said it's just common sense – if you ask the client can you stand to see your money go down – yes or no –you get an answer and that answer will be well yes I understand how it works in that sometimes it can be up or down and you're starting to get a perception of the client as opposed to "oh no,no,no,no – I couldn't stand to see it go down" You start to know exactly where your client sits very easily – you don't need a twenty-page questionnaire, which always come out medium anyway, because they do – they always come out balanced – that is just a waste of time and as for this perception of this loss – can any client actually stand to lose any money – well the answer is no so it means that everybody should be in deposits, but there we go, but I think that's where experience comes in - asking the client the right questions. A lot of the newly qualified new guys going into bigger firms with a set procedure, with a set way of doing things will fill out a questionnaire and that will be just to cover their backs, whereas if they didn't have a questionnaire they might actually ask the client a few questions, but because they've got a sort of an out on risk profiling tools they will use the tool, because they sit in front of a client with the computer, ask the client the questions, tick the boxes – you come out as a number 6, this fund is a number 6, therefore you need this fund – it's not that simple. So I think that is where the experience and the qualification will start to drift a little – there is no-one coming through the industry at the lower level to move up the ladder and gain that experience in front of a client. Because you have to be qualified to sit in front of that client it's too late because you are qualified to gain that experience, because you're too expensive. That's the problem, whereas if you're a trainee accountant or a solicitor you're allowed to work on that case and pretty well just get signed off. You gain that experience along the way. I don't know where our experience is going to come from – we're running out of people in the age group – you look at people of younger than 55 in the industry – where have they gained their experience – there's a few of them been out on the road, but

> *the majority of them haven't – they're not coming through; so I think there's going to be a lot of books sold to bigger firms and when that happens you'll be getting the graduates coming through – ready-made client bank but no experience and very little perception and a lot of people these days are being sold things they just shouldn't have and that will go on because of the way the industry is going on that so I think it's the experience, qualification, education is going to be a problem. You can have the education and qualification, but how do you gain the experience?" (IFA2)*

Contrast this set of opinions with those expressed by another IFA with professional body connections, specifically commenting on the role of experience in the sector:

> *"In response to your question, do you have a view on how experience might be inculcated into people entering the profession, I would say that for me it would be apprenticeships and internships – we've got to crack that, we've got to find some way of making sure we are successful in building the next generation – getting them qualified, getting them on that route to qualifications. We have a structure now where people can see that they can walk away with an equivalent of a degree qualification, chartered and beyond so I think we can see a structure now – if you're a young person joining you can see it's not purely one dimensional. I think we're starting to be seen on a par with other professions because of that, because of the consequence of our structure. We are moving in that right direction, but I do think it's the experience – you need the mentoring, you need the apprenticeships, you need the internships, you need all of that bit which I think we're probably weaker on, because for us in the past it was the big insurance companies' sales forces that effectively did that, but that's gone. So we need some way of bringing that in in a different way." (IFA5)*

Clearly this contributor also firmly believes that experience is very important and suggests that apprenticeships have a significant part to play in its development. Notably, his was the only mention made by any contributor to this work with regard to the appropriateness, or otherwise of financial services apprenticeships. Does this reflect an attitude of aiming too low in training terms, or too high?

The Economist, challenged such apprenticeship schemes in an article entitled , "Apprenticeships – Keeping up with the Schmidts" pointing out that most new apprenticeships in the UK are conducted at QCA Level 2, not really the stuff of establishing a career path aimed at achieving a full degree equivalent qualification. (According to the article, one in ten new English apprenticeships in 2012 were created at a single supermarket chain, Morrison's, who were using the government subsidy of £1,500 per apprentice to put 52,000 of its staff through six-month training courses in operating cash tills and other basic tasks, which the paper reflected was hardly the technical training that government ministers had in mind) Furthermore, whilst the far more tightly prescribed apprenticeship schemes of Germany are for a set period of three years, requiring the apprentice to remain with the sponsor for that period of time, in the UK flexibility of labour movement is held to be one of the main reasons for the country's ability to maintain higher employment rates than their competitors. Fixed term apprenticeships, argues the Economist, are inconsistent with that flexibility (Economist 2014).

Whilst the first IFA had a lot to say, on the topic of experience what he was saying in effect was that to undertake the role of IFA effectively and to the benefit of the consumer it is necessary to have the necessary tools. He saw experience as being a major source of that, whilst the second contributor was less concerned with output, but more focused upon inputs, namely in the shape of apprenticeships.

As a service sector those tools should be heavily weighted towards the acquisition and maintenance of knowledge and that is often best achieved, at least initially, by studying at an appropriate academic and technical level within a well-constructed and appropriate framework, which is what an examinations programme should be (Becker 2009). There would not appear to be any reason why an apprenticeship programme should not deliver some of the required outcomes, but as someone recently involved in the delivery of that programme I found that flaws regarding content were manifest, making it unfit for the purpose of addressing client needs. However, it may be that it is suitable for the needs of insurance companies, whose employees may provide the main source of numerical support for such schemes and whose requirements may be narrower than that of the advice sector.

Qualifications

What do we mean when we talk about qualification? Far from being obvious the word seems to have many interpretations: "Officially recognized as being trained to perform a particular job," according to the Oxford English Dictionary, but what job, or range of jobs and to what level and does qualified also automatically mean authorised?

It would seem important that we do not confuse qualification with education, which we discuss shortly. In the case of the financial planning and services sector any form of qualificational requirement did not emerge until 1988 and then only at a level which was claimed to be similar to "A" Level standard. The next change in benchmark requirements for the IFA was not set until January 2013, with the requirement being increased to the approximate equivalent of that achieved by a university undergraduate completing their first year examinations.

The attainment of success in these benchmark examinations entitles the successful candidate to seek to be authorised by the relevant regulator so that they can practice.

The Institute of Financial Planning acts as an agent for the examining of member candidates to be assessed at a higher level of understanding and where successful to grant the title “Certified Financial Planner.” For its part the Chartered Insurance Institute obtained permission from the Privy Council to grant chartered status to candidates successfully passing a wide range of examinations testing knowledge and understanding across a broad swathe of financial planning needs and it is thought, at least anecdotally, that this will eventually become the minimum requirement for the profession of financial planner. Quite when, or if, this may come to fruition is not known.

What has emerged, at least within the auspices of the CII, is a career path written in terms of an examinations structure. This begins at the junior level, with examinations at Level 2 and Level 3 suitable for the development of new entrants to the sector and in particular apprenticeship holders.

Included in this pathway is the development of a newly recognised role of Financial Paraplanner, literally one who assists and supports the Financial Adviser. In this role those aspiring to become IFAs can develop their skills without having the responsibility of advising the consumer, other than in a generic sense. Because both the CII and IFP are beginning to focus upon this expanding area there are discussions regarding the development of an entirely separate, but recognised body to represent these individuals, who have amongst their number numerous members who hold chartered status and master’s degrees. Indeed not all paraplanners wish to become advisers, preferring to act as overseers in the process of planning and researching, the latter being a particular skill in itself.

What is interesting is that paraplanning probably provides the desperately sought response to IFAs’ concerns regarding the development of experience now that the insurance companies are no longer involved in the training process, at least as far as the IFA community is concerned.

So far within the sector only professional qualifications have been considered, but as has been alluded to in earlier chapters, there is now a school of thought which supports the notion that on its own professional qualifications are not enough. Their argument goes that professional examinations tend to promote existing ideas and cultures, such as couching training language in terms of sales and marketing. Academic learning and qualification, the argument continues, provides the opportunity for benefiting from double-loop learning (Argyris 2002) and avoiding the pitfalls of “Groupthink” (Janis 1972)

Educational and Communications Aspects

What is it we mean when we talk about education; are we talking about educating advisers, product providers, the media, the public, consumers or clients? Educating them in respect of what, exactly? One IFA thought it was about informing clients about the reasoning and process relating to the sale of a product and his remarks were clearly focusing upon that, as the next box demonstrates.

> *"I sometimes look at a file when I've done not even a relatively complex thing and by the time you've added key features documents, illustrations and all the rest I could have fifty/sixty pages going to a client – well that is just ridiculous. I can't think of a lawyer or accountants where I've fifty/sixty pages. An accountant with a set of accounts – you don't get that; you don't get the justification because they're professionals – you're paying them to do a job – if you had all that knowledge you wouldn't need them so why are we constantly trying to educate clients in financial services – it's pointless – they don't understand it, they don't want to understand it –they just want to come to you and say "just do that for me – don't talk to me, don't want to know – the number that send their reports back, saying I don't want that" and I'm sitting back saying you have to have it –they just don't want it." (IFA2)*

In contrast, IFA4 agreed that,

> *"If advisers have not got that ability to deal with simple literacy and numeracy and communication skills then it's going to be very difficult to get anywhere in any field, but I do think that that is one of our challenges." (IFA4)*

It was acknowledged by several contributors that whereas insurance companies had been the principal providers of training in the past, this was no longer the case. Having said that, ideas on future sources were ignored in the main. One IFA questioned whether it would be the regulators or the universities, although without any conviction. When I asked him, *"do you see a role for the professional bodies?"* he responded,

> *"Yes I'd never thought of that – there's the Personal Finance Society, the Chartered Insurance Institute, the Institute for Financial Services, the Scottish equivalent up there. Yes I'd never thought of that - they must have a massive role, because otherwise we are all going to leave. The CII is full of insurance people mainly, I would think – the PFS is full of financial people so if we all fall off the end and become retired members getting a reduced rate, no doubt, what are they going to do? So yes they must have a big, big part to play, otherwise where will they be. They have a big self-interest in it." (IFA7)*

Even then this contributor did not refer to the responsibility of professional bodies to set appropriate examination syllabi as part of their central role or to provide relevant training courses.

A sixth contributor noted,

> *"there's no education for negotiation training or resolution or problem-solving or – it's all, or a lot of it's for sales and what's a pension, but there isn't any soft skills so I have to go and seek that out elsewhere - it's fairly crucial how you communicate with people, but yet we have no, we don't really have any courses, or I have to do mine through the Family Law Society or through people that I know can help me educate myself. So how do you seek out education, qualification, because it's not necessarily about exams, is it?"(IFA6)*

Her comments here are about the content are partly about the relevance of what is included and partly about what is missing from the overall examinations and training syllabus. In this she has an ally in the form of a contribution from a potential consumer, whose comments included these remarks when referring to professional bodies generally,

> *"The degree or diploma or whatever it is needs to have a very close relationship, not only with the theory of the subject, but also with the practical side of it. And again this is where I felt that the CIPD sometimes falls down that somebody who gets a member diploma or whatever it is has passed the diploma and really and truly the examination itself hasn't been tested in those areas which are important to an organisation in that moment in time……so I don't think that always they focus on the reality, because the people setting them for whatever reason may not be close enough to reality."*

It may not be the same professional body which is in his sights, but the observations may be considered valid with regard to the need for all learning to be relevant to current and future needs as opposed to simply be an extension of what has been in the past. This is particularly true when the situation being faced is one of survival in a swiftly changing world.

Perhaps when considering the direction of communication in respect of educational matters feeding back to the professional bodies the need to maintain relevance could be paramount. A failure on their part to take note could lead to their demise, in whole or part and their replacement by bodies more aligned to the needs of their member and the wider community.

As can be observed very little was contributed with regard to the value of academic qualifications generally and the financial planning sector specifically (Boud and Solomon, 2001). This was disappointing, but perhaps not entirely unexpected given the career-path backgrounds of many contributors.

Reflections and Observations

A constant theme encountered throughout discussions with various contributors from both the product provider and adviser communities was a concern for replacing the ageing adviser community with younger blood. Yet the type of potential recruit to this sector is likely to differ markedly from the youthful entrants to the world of insurance companies in the 1960’s and 1970’s. Now the potential might have to be sourced from cohorts of young people aged 21 and beyond, who have spent three years or more acquiring a university degree and the broader life experience that university education brings with it. The present occupiers of the mantle of financial advisers were recruited at 16 and 17 and had a very limited experience of life and were comparatively less well educated, because university places were less available.

In an article entitled “Free Exchange: The great trailblazer” (May 10th 2014) The Economist in reporting the death of Gary Becker, recorded that,

> *“Alongside his Columbia University colleague Jacob Mincer, he developed the concept of human capital, that is the investments individuals make in their own education. Mr Becker ventured that spending on education and training should be thought of as an economic choice, made in anticipation of perceived future gains, rather than a high-minded search for cultural enrichment. His view gave insight into labour-market oddities. By taking into account the differences between general knowledge (of maths, say) and firm-specific skills (such as knowledge of in-house software) Mr Becker could explain why skilled workers are less likely to change firms, or why firms are more likely to promote from within.”*

If Becker and Mincer were correct then these individual investors will need to be attracted towards particular sectors and a major motivation in their decision-making will be their conviction that a clear career path exists, one which will provide them with an appropriate return on their capital, although according to Becker, this need not be expressed simply in terms of monetary gain.

But what is that career to be grounded in? Is it to continue to be product sales focused with success measured in terms of the value of the investments made through an adviser by his or her clients, or is it to follow the route suggested by the group of advisers interviewed who saw financial planning as the way forward and from which success was to be measured in broader terms, including the successful creation of long-term relationships (Shirazi and Mortazavi 2009) (Bloom and Van Reenen 2010)?

It should be recognised that selling, whilst important, is not marketing. The understanding of marketing can and is now often learned through the vehicle of a university degree, frequently enhanced by a master’s degree and sales is only a small part of that learning. However, a career in marketing does not automatically mean a career in financial planning; in fact it suggests nothing of the sort.

Accounting and finance degrees, conversely, suggest that one of the career options could be in financial planning with its natural affinity to budgeting, taxation and management accounting techniques and this observation is given greater attention in Chapter 5.

It seems that whilst there is general agreement that increased standards of education and qualification are desirable, there is little homogeneity regarding how that might be achieved, consistent with the ultimate aim of transforming the sector from one locked into a sales culture to one focused upon providing professional advice and guidance to fee-paying clients.

However, the paper by Akerlund, Golsteyn, Gronqvist and Lindahl, referred to earlier, provides not only a sound reason for following a path of academic educational enhancement, but may also offer the basis of a solution to the dilemma facing the financial planning sector. Their paper claims to be the first empirical investigation of the link between time preferences and criminal behaviour (Akerlund, et al 2014). Time preferences were measured through a question where the children were asked to rate the extent to which they prefer $140 today over receiving $1,400 in five years' time. The questions were put in 1966 and over the next eighteen years a positive correlation was detected between those seeking immediate gratification and becoming involved in criminal behaviour.

My work is not concerned specifically with criminal behaviour, but with attempting to understand, in part, how different types of remuneration methods could affect the future structure of the financial planning sector.

Therefore, Becker and Mulligan's seminal study of 1997, which posits that people can learn to be more future-oriented and which was supported by the results obtained in Francisco Perez-Arce's study provides a useful guide to the concept that delayed gratification can be learned as a result of receiving additional levels of academic education (Becker and Mulligan 1997), (Perez-Arce 2011). Remunerating by payment of commission on sales appears to reflect an attitude leaning towards instant gratification, with high, but short-term payments being the goal. Building a long-term relationship requires thinking that employs patience and the argument is that patience is developed through academic learning.

If the sector is experiencing any difficulty in recruiting and retaining suitable people then it could be because they are seeking to recruit inappropriately qualified individuals, that is it is maintaining its sales ethos rooted in models of the past as opposed to recruiting competences capable of meeting client's current and future needs, both perceived and actual.

The following table lists the twenty-two actual needs identified from a range of our own financial planning clients. Whilst it is not claimed to be a complete representation of all financial planning requirements it nevertheless remains a substantial set of requirements, with most clients needing around eight of these needs to be addressed.

Immediate Ret. Planning	Future Retirement Planning/Affordability
Low-Cost Endowment issues	Expenditure Planning
Business Guidance	Long Term Care
Wills & LPA Guidance	Debt Management
Investment Advice	Suitability of Trusts advice
Tax Returns & Guidance	IHT guidance
Annual Progress Review	Children’s Savings
Tertiary Education	Divorce Separation Finances
Death	Estate management
Misselling or misinformation	Income protection
State Benefits Entitlement	Mortgage advice

Table 7 - Identified Client Financial Planning Needs

Superficially, at least, many of those needs appear to lend themselves to the skills and competences available from those with an understanding of accounting and finance. A financial product may provide some of the answers, but certainly not all. A chartered financial planner should be able to recognise wherein lie all the answers, but probably will not, at an individual level, be able to maintain the correct level of skills and current knowledge required to address them all, whilst the opportunity to sell a financial product represents a lesser priority. That, as I have suggested in Chapter 3.1 will almost certainly require input from specialists working cooperatively in a firm of financial planners and their remuneration will be through the charging of fees.

If there is an argument for recruiting better educated and potentially better qualified people into financial planning then it still leaves the issue of how to develop experience unanswered. The recognition of the role of paraplanning in the development of a training and development programme may provide some of the fundamentals of that answer. It offers firms the ability to employ individuals with appropriate educational skills a career path in either research and financial planning or authorised adviser. In either event the firm benefits from a combination of earning fees from the researching, planning and advising activities, whilst, under current methods for calculating fees charged by the regulator to authorised firms, only having to meet the compliance costs for each regulated adviser. This provides a better ratio of income to expense, whilst also building a robust internal skills structure.

Notwithstanding this, experience might be accepted by many contributors as the glue that could bind together the professional and academic qualification achievements for the improvement of standards within the sector and the establishing of the profession, referred to in Chapter 3.5 on barriers to the development of the IFA sector.

How to create such a structure is the challenge, but given that a lack of an appropriate professional construct is referred to, in the previous chapter, as a barrier to future survival, let alone development and success, taking up that challenge would appear to be critical.

Whilst within the sector most organisations are prepared to recognise their own designations of professional achievements they are far less enthusiastic about recognising the qualifications accredited by a rival. The Institute of Financial Planning never refers to any of its members as being Chartered Financial Planners, an award within the gift of the Personal Finance Society. The Personal Finance Society and its patron the Chartered Insurance Institute ignore the title Certified Financial Planner which is awarded by the Institute of Financial Planning. Both awards signify the greater achievement and professional competence of the holders, who number between them more than five thousand. (The existence, far less the qualifications, of the Institute for Financial Services, the successor to the Institute of Bankers, is completely ignored by both.)

Whilst this internecine childishness may appear to be more irritating than damaging, when it is applied to academic qualification it exposes itself to rather more practical constraints. When the PFS writes to me it attaches the designation, “AFPS” to my name along with the title “Chartered Financial Planner”; the IFP attaches just the designation “AIFP”. Both routinely ignore my MBA and rather more damagingly my Associate Membership of the Higher Education Academy, or AHEA depicting my passing abilities in the deliveries of undergraduate and post-graduate courses in accounting, finance and financial planning, which also incorporate techniques for preparing and marking examinations.

The ignoring of academic achievement is particularly strange in a world where the acquisition and application of knowledge is becoming the main resource requirement in virtually all sectors of the economy, both in the UK and worldwide (Lyotard 1984;

Paton, Cameron et al. 2000). Attitudes amongst older members of the financial planning sector have already revealed that they believe and robustly defend the notion that their success is the result of hard-won experience and that academic achievement cannot provide a substitute (Teubner 2007). However, that hard-won experience has been in the field of sales, with only a belated requirement for it to have a relationship with technically-based advice.

The future demands more and recognising the latent abilities which may lie behind academic achievement will at the very least serve to assist the aim of recruiting candidates into the sector who are, or can become, equipped to meet the demands of the future, as opposed to only acquiring the habits of the past. Put succinctly, I am suggesting that the new culture within the sector should contain a desire to celebrate academic achievement, not to deride it.

Whilst considering cultural aspects, it was interesting to record how often financial planning was referred to as being part of an industry, mainly by the product providers, but noticeably by the older generation of IFAs who had been trained by insurance companies. The middle-aged IFAs were more consistent in their use of the word “profession” and in their aspiration to differentiate themselves from notions of selling and/or industry. Whether usage of the former is merely habit or an attempt to avoid the separation of the advice sector from the product provider sector was not studied. What is certain is that the term “legal industry” or “accounting industry” is not part of current parlance and if the financial planning sector is to develop a professional image dropping the word industry from its language will be vital, both from a mind-set and public perception perspective (PFS 2014).

Indeed the belief that the public will accept IFAs as members of a profession simply by continuing to emphasise that the sector is insisting upon the achievement of ever-higher professional qualifications could be influencing the subliminal attitude of consumers towards the sector. Solicitors are recognised as professionals because they are solicitors, not because they have passed the examinations of the Law Society; they do not as a body claim to be a profession because the public recognises that without needing to be prompted.

When William Booth, the founder of the Salvation Army, was asked when it was that his movement was formally accepted within the minds of the public he said that it was when the newspapers ceased putting parentheses around the word General when referring to him. The term “industry” when applied to the financial planning sector, is in effect the cultural parenthesis placed around it. The existence of a robust amalgam of academic achievement with professional qualification and well-structured pathways towards gaining appropriate experience may well deliver the change that ensures that in the minds of consumers a financial planner is a member of a profession, without the word ever having to be used. Once this has been established in the consumers’ minds the willingness and confidence to discuss their financial planning needs with a Financial Planner, whose status is endorsed by a suitably independent professional body, should be as natural as going to a solicitor for legal guidance.

What those needs may be is discussed in the next chapter, which considers what products and services are currently offered through IFAs and what would be required as part of the structuring of such a new professional realm.

3.7 – The Expected Range of Products and/or Services to be offered by a Financial Planning Organisation

Summary of the main themes discussed in this chapter

- The relationship between an organisation's purpose and its product or service range
- The nature and characteristics of product-focused advice
- Non-product-related advice
- Hybrid approaches
- Consumer needs

Introduction

A definition of marketing, provided by the Chartered Institute of Marketing (CIM) is,

> *"The management process responsible for identifying, anticipating and satisfying customer requirements profitably."*

As one would expect this topic provided the basis for a plethora of claims regarding the service and product range provided by IFAs. Some claims exemplified a limited understanding of what was meant by "everything", but at the same time expressed a desire to provide comprehensive advice and the broadest range of products to clients. By extension this desire highlighted a competence gap with regard to the ability of a portion of IFAs to deliver the level of service identified by others. It might be said that the themes in the diagram below are in sharp contrast to the very limited range of requirements expressed by consumers in Table 8**Error! Reference source not found.**, both potential and current and considered at a later stage.

As the diagram shows, the service range is organised into three groups, some of which may lend themselves to be labelled income producing on an ad valorem basis and some either non-remunerative or reliant upon the charging of fees to clients. Interestingly, despite consumers' pronouncements on their perceived needs the range illustrated is, nonetheless, closer to their actual requirements than those they espoused. Just how close to "closer" and whether that is close enough is what the marketer should be discovering. Few firms of IFAs have such an animal, but the need remains to align service provision with actual need and, as the Chartered Institute of Marketing is quoted as saying at the beginning of this introduction, profitably.

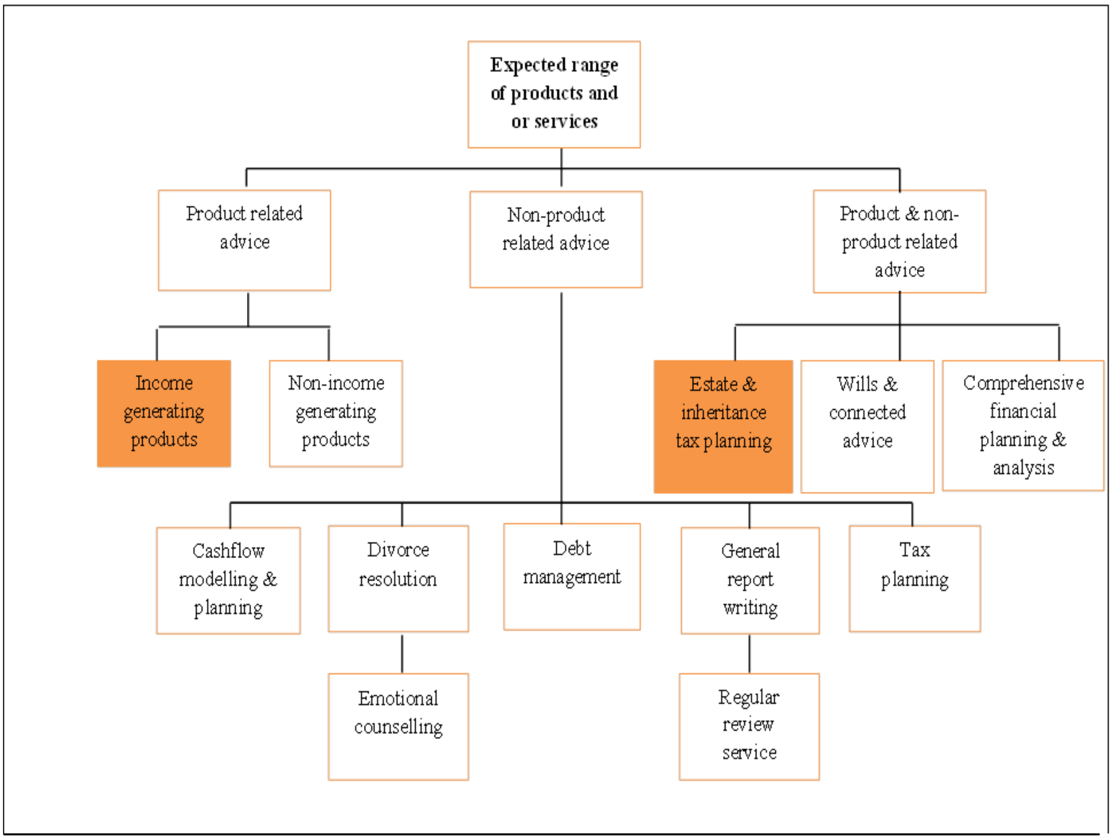


Figure 12 – The Expected Range of an IFAs Products and/or Services

Product-related Advice

The diagram above confirms that income-generating financial products were one of just two frequent themes discussed during meetings with contributors, the other being estate and inheritance tax planning, examined later. These are products capable of generating income based upon either a percentage of the value of the investment or commission. They have been identified by contributors as including the following:

1. Pension plans, annuity purchase and associated advice
2. Investment bonds and related advice
3. Protection policies and related advice
4. Mortgages and equity release plans
5. Regular savings plans
6. Long-term care (impaired life) annuities
7. Long-term care insurance plans.

It was to this list that the phrase, “we deal with everything” was applied by some IFAs.

The fact that the box in the diagram is blocked in orange testifies to the ease and congruity with which this element engaged IFAs attention. There was little attention or reference made to non-income producing products, such as Premium Bonds and Cash Individual Savings Accounts.

The complete diagram suggests that there is more to “everything” than the aforementioned list infers, but the list does have the advantage of identifying clearly how many IFAs see their function and purpose. This, they perceive, is to sell financial products and to do this they identify and anticipate needs which can be addressed from within the stable of products available to them. In turn the products sold will provide a remuneration, once known as commission and now reframed as an adviser charge, with that remuneration possibly including an element with a recurring nature.

That the income streams generated could include some of a repetitive nature suggest that the future of the sector, if it clings to this “commission” type model will be secure. That is the belief of a great number of IFAs, either because their original training was provided by insurance companies at a time when the payment of sales commission was in vogue as the main form of incentive, or because they have received their training from IFAs from that earlier generation. The weakness will be exposed when, not necessarily if, the new regulator determines that they intend to enforce regulations which ban the payment of commission on the sale of most financial products.

The longer there is a failure by IFAs to recognise what is happening in the external environment the more dramatic the changes will have to be in an attempt to survive the change; beyond a certain point commercial collapse will inevitably result. This is because when it fails to respond to, or even recognise, market trends it is overtaken by what Johnson Whittington & Scholes (2011) describe as strategic drift. According to them,

> *Strategic drift occurs when an organisation gradually loses touch with the incremental changes in the business environment and only realises that it has lost touch when it is too far removed to be able to retrieve the situation by incremental change. The result is that it tries to apply radical methods, which result in wilder and wilder oscillations. Eventually a point is reached where a turn-around specialist is required to carry out the actions necessary to put the organisation back on course. Of course a successful turn-around cannot be guaranteed.*

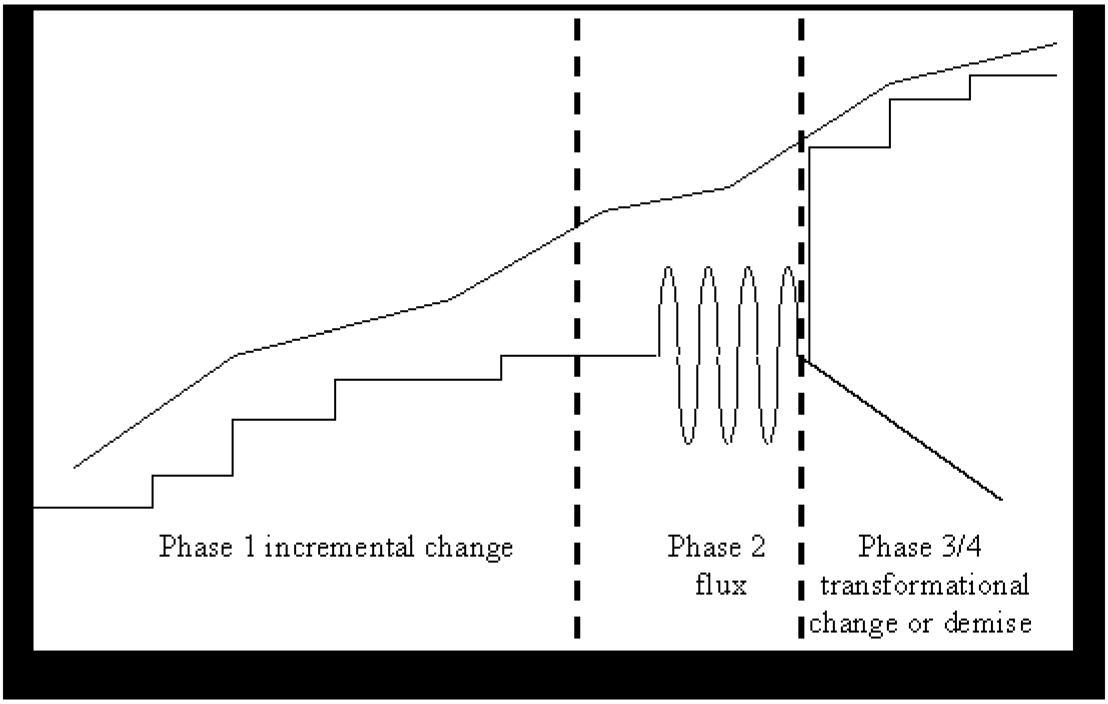


Figure 13 - Strategic Drift (with acknowledgements to Johnson, Whittington & Scholes 2011)

In effect this translates into the need to recognise that the world is changing and to survive financial advisers must change too. Incrementally would be preferable, but dramatically if this option is not taken.

Of course change is more challenging when the institutions to whom you have always looked for guidance and support, namely the product providers, do not share your revised purpose or goals. It was clear from contributions provided by product providers that they believed that IFAs existed to provide advice on financial planning products and investment management, although how IFAs were qualified to do the latter was not articulated.

One product provider, in response to being asked what range of services he would expect to be offered by a financial planning organisation observed,

> *"So I would say everything –so what I mean by that is there is quite a wide spectrum out there in terms of firms – so some will do a bit of everything whilst others will specialise – oh yes, we specialise in certain areas, like savings, investments, that kind of thing. What I mean by everything is being able to go into an independent financial adviser and sort out your financial life in one go, so looking at things like mortgages, obviously, protection and savings, investments – they regularly occur – so just being able to look at everything."(PP2)*

When advised that some IFAs indicated that their only product was advice, for which they charged a fee, he responded,

> *"I suppose working for a product provider you naturally think about products and try and break it down. I suppose it is advice in that sense but, I don't know, is that IFA being a bit smart though?"*

Prudence suggests that future guidance and direction ought to be sourced from elsewhere, perhaps from the IFAs' professional bodies, but to what extent is it in the interest of some of those bodies to challenge the perceptions of providers, when significant financial contributions from product providers underpin their own survivals?

Non- product related Advice

Leaving that issue aside for the present the themes diagram then moves on to consideration of non-product related advice, which is significantly different from the service referred to in the previous section. It differs because it does not involve the sale of a product and it does not therefore benefit from the receipt of a commission for its delivery. Nevertheless, many IFA contributors avowed that it was an area of great importance in terms of providing the holistic service they felt their clients deserved.

By studying that diagram you will observe that the services identified within this theme relate to issues which usually generate at the very least frustration, (cash-flow forecasting for example,) or considerable emotional stress, such as debt management or divorce. Ironing out the financial aspects is often complex, requiring inter-personal abilities not taught within the financial planning courses, as one IFA has previously observed in Chapter 3.6. The service also requires an ability to articulate pathways to solutions, including delivering them in written form to provide clients with a reference to which they can refer in times of future uncertainty. To do this for a client without charging a fee suggests a level of altruism bordering on participation in a hobby. Bearing in mind what the CIM said about meeting client requirements, but profitably, a fee must be charged, not least because for the client to receive continuing support the IFA has to remain in business over the longer term. How to do it and, once the method has been agreed, when to implement the necessary structural changes is the challenge. Remember, procrastination is the thief of time (Young 1866) and it is also a major contributor to strategic drift.

Non-product and Product-related Advice – the Hybrid Service

Many IFA contributors did not make a distinction between services which were solely product-based and those which were not and you may think that for a body of people describing themselves as independent-financial-advisers and/or planners that would be natural. Up to the point where the Retail Distribution Review was introduced in January 2013 discussions over the range of service to be provided by IFAs were muted, but when they did occur they reflected attitudes recorded in this work. That is many IFAs believed that they were doing good work in addressing consumers' needs where they involved the purchase or investment in a financial product and that the advice provided by the IFA was broadly satisfactory insofar as it made clear how the product served a particular need and what its main characteristics were.

Since the introduction of RDR more animated conversations have been taking place suggesting that it no longer remains necessary for financial advisers to remain independent and that they should and can be allowed to describe the advice they provide as "restricted". In essence those so describing themselves will be able to limit their advice and product range in such a way as to exclude certain areas of financial planning and relationships with many product providers. The question is how does this best serve the interests of the consumer when for them seeking the guidance of an IFA, providing independent advice in the sense that it is free from outside influence (as defined in Chapter 3.1) and solely concerned with benefiting that client, should be motivated by the knowledge and confidence that that IFA has the experience, education and qualification to consider their needs in the widest setting. Going to a restricted advice financial consultant would surely undermine that confidence and cannot be interpreted as a basis for the long-term survival of the independent financial planning sector.

What the new status of restricted adviser does do is provide a home for financial advisers of the old school, happy to continue on the basis of selling products, but also happy to avoid additional workloads associated with the maintaining of the "independent" label, such as conforming to the demands of a strict continuous professional development regime. There is a whiff of the tail wagging the dog in this, a suggestion that disruption of a distribution channel seen as key by product providers should be avoided, regardless of the espoused claim that the Retail Distribution Review is in the interests of consumers.

What are those interests and how are they to be met then? It has already been noted that consumers interests fall into two distinct categories, namely those that they recognise and those that they do not. In Chapter 3.6 the main advice areas provided to private clients were tabulated, twenty-two in all. In an analysis of the reasons why clients first made contact with our firm 76% of them mentioned having no more than two needs to address, whereas the reality was that nearly the same proportion had seven areas which actually required attention. The most frequently espoused and required needs were as follows:

Area of Need and Advice	Percentage of Clients requesting service at outset	Percentage of Clients subsequently acting upon Advice or Guidance
Wills & Lasting Powers of Attorney	2%	86%
Inheritance Tax Planning	2%	73%
Annual Progress review	4%	98%
Expenditure planning	6%	55%
Immediate retirement planning	8%	35%
Long-term Care planning	8%	49%
Tax returns and Guidance	10%	82%
Future Retirement Planning	38%	75%
Investment Advice	52%	94%

Table 8 - Analysis of Consumers' Financial Planning Wants

Of the nine listed services most frequently identified by the adviser as requiring attention all may require the provision of an income-generating financial product, but none definitely does. All may be safely described as financial planning issues and therefore to be included as part of the brief of a suitably qualified IFA, but many, although not all, would fall outside of the range of services provided by a restricted adviser. The most desired service recorded in our own research was the Annual Progress Review Meeting and this was substantiated by research undertaken for the FCA (NMG Research, 2015).

Given the frequency of the first two services appearing in the table above it is comforting to see that under the group theme “Product and non-product related advice” the area receiving frequent commentary from IFAs (and highlighted in orange) lay within the realm of the Grim Reaper, with half of those IFAs contributing mentioning the need to include consideration of wills, lasting powers of attorney and inheritance tax mitigation planning.

These products and services are integral ingredients in the provision of comprehensive financial planning and analysis, because they can involve not only advice and guidance in respect of the subject area, but also, if the client is following the advice, the purchase of products either through the IFA or, importantly direct from the product provider, along with meetings with a solicitor. Significantly, this group of services is also high on the list of actions taken by clients who have met with their IFA and followed their guidance.

Contrast these activities with comments from a product provider, who said,

> *"Then you've got that decumulation phase, which is either income drawdown products, or annuity products, or combinations of them both, or whatever you've got. So I think all of that, is by definition, any adviser firm, which is worth its salt will have to offer accomplished services in all of those areas. The extent to which long-term care would be in it, though, is I think that's a fair challenge-I doubt that would be a core part of most adviser firms' at the moment. I think a lot of them are thinking about it in terms of there's an opportunity there. If we could - but I just don't know whether there's enough clarity around and there's a huge risk involved and there is a brand risk involved as well with getting involved with essentially elderly people and their life savings. There might be a big prize there if you get it right, but there's a lot of things to be careful about, I suspect." (PP1)*

The message here appears to be avoid providing advice to anyone capable of being described as elderly, which when a major source of business for insurance companies is annuity provision and investments and a major source of that business, by definition in the case of the former, is the elderly, is plainly contradictory. Furthermore, given that the table shows that approximately half of all clients want advice on long-term care it does suggest that product providers, whilst being a part of the IFAs' supply chain, should only be considered in that light in respect of products and should cease to be seen as a source of untainted information and knowledge. The table also confirms that almost all clients want regular reviews of their financial planning arrangements when given the opportunity, which by definition has to be comprehensive.

Another IFA provides below, his interpretation of comprehensive financial planning – readers may wish to compare and contrast this with the earlier phrase, "we do everything."

> *"Our preferred offering is our comprehensive financial plan, which clearly states that it's a process where we'll look at all aspects of the client's financial circumstances in relation to their objectives and help them to develop strategies that would use their resources most effectively to meet their objectives.*

> *So the services would be - they include mortgages which we don't do so we refer out- so they include estate planning, where we'll develop strategies for estate planning, but the actual documentation is handled by a solicitor. They'll include tax planning strategies, where again, we'll develop strategies, but the actual implementation might be handled by a tax specialist or an accountant or a solicitor. They will include the investment strategies, which are broadly around retirement planning, school fees planning and shorter-term savings strategies and they will include protection, which is the death, disability, critical illness and long-term care and again, long-term care really falls into the investment strategies now because there is no long-term care product other than immediate care annuity or deferred care annuity to deal with that.*
>
> *So they're the type of product features that we get involved with - some directly, some by acting as gatekeepers, if you like. We'll sit within the circle with the client, find out with them what they need and then refer them to a provider, whether that be a lawyer, accountant, some other firm of tax specialists, a PMI specialist, discretionary fund manager, if our internal investment offering is not appropriate for whatever reason." (IFA3)*

Clearly the range of services which this IFA's firm offers, is consistent with the result of our own survey on client needs, encompassing a more thorough and comprehensive service than that implied by the service focused upon financial product sourcing and supply and the two product providers' expressed perceptions of the IFA's role.

This general theme of advice and product sourcing also reminds the IFA of the reality that advice and research is time-consuming and worthy of financial reward, as is the case with the provision of guidance in respect of non-product advice. It is also a further reminder that an appropriate remuneration model has to be designed and applied.

Reflections and Observations

The essence of this topic lies in recognising that it seeks feedback on the expectation regarding the range of products and/or services that an IFA would offer. A comparison is then made with the reality of what the satisfaction of clients' products and service needs actually requires.

What emerged from this element of research was that generational gaps drove some of the attitudes in determining what should be offered by the IFAs expressing an opinion and that where the IFAs had received their original training from insurance companies, usually before the 1988 introduction of the Financial Services Act (1986) the belief was that the service would be product focused, with remuneration taking the form of "ad valorem". This form was previously known as commission, but has now donned the mantle of "adviser charge." The insurance companies' contributors were still wedded to that notion, although there was some acknowledgment that IFAs did do more than simply distribute the financial products of the providers.

Thus this group effectively confirmed that they functioned as part of the providers' distribution channel, despite the denials recorded in Chapter 3.2

Younger, that is, middle-aged IFA contributors were far more aware of the need to offer a wider service and in the main had gained the qualifications, both professional and academic, to support that ambition. However, they suffer from two gaps in their knowledge, which are:

1. What is it that clients want and
2. As a lot of the service required is non-product based how are the advisers to be remunerated in a fashion that will ensure their long-term survival?

The first question is the one that dogged David Ferry in his attempt to complete his master's degree, seeking to address similar issues, without success.

Because the Financial Conduct Authority appears to be giving greater consideration to ensuring that fee-charging is accompanied by clear justification answering both of these questions is becoming increasingly urgent. An analysis of our own files provided an answer to the first question. This confirmed that most clients, upon approaching an IFA with a requirement have little idea of the service that is on offer and about the same level of understanding of what their real financial planning needs are. Hence the lack of result for Ferry; if as a client or consumer you do not know your need you can hardly articulate it to another party.

Information of this kind should also encourage product providers to think about the suitability of their product range for providing solutions to some of these needs.

The answer to the second question can be found in Chapter 4, although not applying its suggestions, or that of a suitable alternative, will lead unerringly down the path of strategic drift and possible oblivion (see Figure 13).

An early decision to implement the required changes will bring with it the advantages of a better informed client bank, building upon the confidence which already exists, hopefully, between adviser and client. The establishment of a fee-based profession built upon a platform of not just confidence, but transparency and integrity will serve not only the aims of survival, but the continuing development and success of the sector. However, as with the development of any profession, the foundations will rest in the competence of its members and the integrity with which they undertake their duties and that will require more than simply adhering to a set of ethical rules assembled by a professional body, as the following chapter suggests.

3.8 – Opinions on how Integrity should shape the Financial Planning Process

Summary of the main themes discussed in this chapter

- Integrity in practice
- Issues of ethics and trust in the building or undermining of integrity
- Professional codes of ethics
- Conflicts of interest

Introduction

What do we mean when we talk about integrity and what does the dictionary say it means. Taking the question in reverse order the Compact Oxford English Dictionary describes integrity as,

> *"The quality of being honest and having strong moral principles."*

The Institute of Financial Planning's Code of Ethics was succinct and unequivocal in its description stating,

> *"Members may be placed in positions of trust and confidence. The ultimate source of the public's trust is the member's personal integrity. Integrity demands honesty and candour which must not be subordinated to the member's personal advantage. Within the characteristic of integrity, allowance can be made for innocent error and legitimate difference of opinion, but integrity cannot co-exist with deceit or subordination of one's principles. Integrity requires members to use their best endeavours to observe not only the letter but the spirit of this Code."*

Note the difference, namely that the dictionary expresses an interpretation for integrity, whilst the IFP offers a view on ethics.

Is this a deliberate entangling of the two terms, or simply an unnecessary interchangeability?

According to Harry Frankfurt's account of integrity (Frankfurt 1988), in his paper "Identification and Wholeheartedness" one of its properties is self-integration wherein a fully integrated person identifies with certain desires and volitions and that these are motivated by principles, values and beliefs. Identifying with and holding to these principles, values and beliefs characterises a person of integrity.

However, Lynne McFall in her paper "Integrity" suggests that what is equally important is that integrity must have moral content,

> *"It may be thought that (only) internal coherence is required for integrity, so there is no contradiction in speaking of the integrity of an Iago or a Machiavelli. On the other hand it seems odd to speak of a loss of integrity in the failure to lie, scheme, murder or, in general, the failure to be ruthless. But if internal coherence were sufficient for integrity, internal incoherence would be the only way it could be lost"(McFall 1987)*

A view that integrity is closely associated with personal identity is proffered by Bernard Williams advancing the idea that we can only retain our integrity and hence our personal identity if we remain loyal to a sense of ourselves and that sometimes ethical theory can serve to undermine this; in other words he alludes to Pinocchio's metamorphosed conscience in the form of Jiminy Cricket (Williams 1973) .

So far these views of what integrity might imply have been expressed as personal virtues, that it is inward-looking. Cheshire Calhoun has insisted that integrity should be seen as a social virtue. He has argued that it involves "standing for something" in a community of co-legislators, even when this might court unpopularity.

> *"It is a matter of taking a stand for, and before, all deliberators who share the goal of determining what is worth doing." (Calhoun 1995)*

Support for this perspective is provided in the following extract,

> *This picture of an agent as a member of a "community of co-legislators" is also likely to capture part of what is particularly valuable about integrity to organisations and to professions. People of integrity will try to change organisational behaviour and culture even when doing so makes them personally unpopular (Baxter, Megone et al. 2012)*

In an article in the Financial Times it was suggested that,

> *"The recent banking crisis could have been avoided if more bank employees had been able to see their actions in a wider context. The article claims that it is essential to restate and affirm the social purpose of financial institutions as well as affirming the personal vocation of those who work in the industry." (Agius 2010)*

Whilst definitions of integrity, rather like definitions for strategy, are various and numerous the underlying theme is that it contains an ethos and that in most explanations this is built around and upon frameworks of morals and ethics, that it is both ethereal in nature and recognisable in practice. Possessing it at a business level is a non-tangible asset which does not appear in any balance sheet, but is invaluable; once lost it cannot be repurchased.

Although it is a recognisable and valuable asset this topic provided participating contributors to this work with the most difficulty from a conceptual standpoint. Bearing in mind that they had all been provided with the list of topics to be included in the discussion ahead of the meeting it was surprising that little consideration had been given to this one. Nevertheless, opinions emerged from and during the conversations which have been grouped as either representing integrity in practice or the underpinning ethics and these are illustrated in the diagram below.

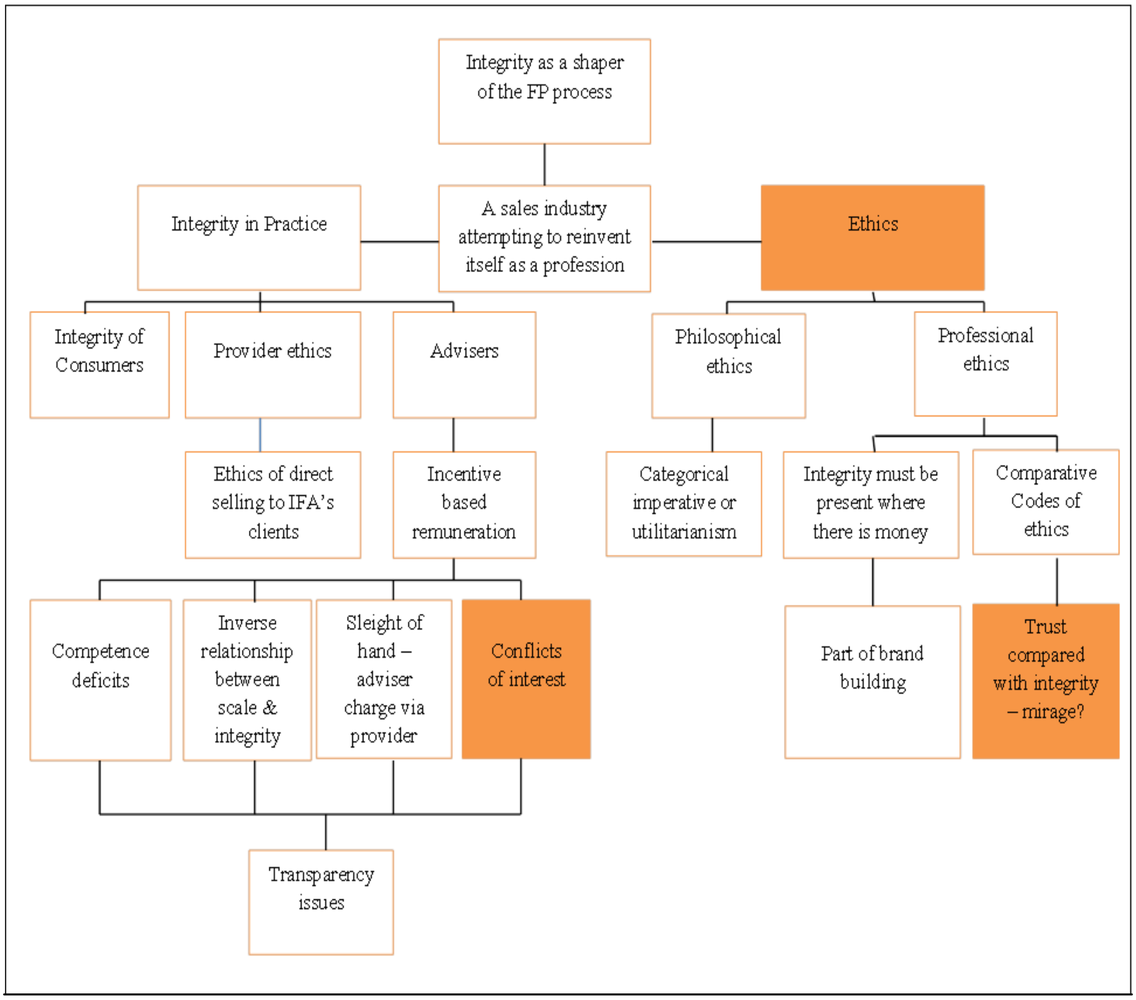


Figure 14 - Integrity's place in the shaping of the Financial Planning Process

Ethics

With the definitions of integrity in mind we can now move to consideration of IFAs' thoughts and ideas on the concept, commencing with the theme which drew the most attention, ethics. From the diagram it is clear that emergent thoughts and ideas could generally be divided between philosophical and professional ethics. In fact not one IFA made any direct reference to the former, but one IFA did offer this observation:

> *"I think the problem that we have with ethics is that we are so tightly regulated now that if the regulator allows it it's classed as ethical and I think that's dangerous, very dangerous because we're being told that as long as this paperwork is in place, as long as you do this, as long as this is a suitable solution, you can charge what you damn well like - I think that's wrong. I think there's a price for the job." (IFA2)*

There is some evidence to support the part of this observation that alludes to regulators allowing particular activities. The PFS Code of Conduct specifically states that whereas advisers must act in the best interests of clients, where a conflict of interest arises they should refuse to act *"save where acting in these circumstances is expressly permitted by the regulator."* (Paragraph 3.8 of the Code of Conduct) This may, and probably will, be perceived as offering opportunities for acting contrary to the spirit of the code where convenience dictates and interpretation allows within organisations prepared to live on the edge.

Generally, however, when we think of the ethical standards employed in business we consider issues such as is a person being paid a fair wage for the work he or she does, are goods being sold of a quality that the consumer expects, are the contract terms just, are the business arrangements to the benefit of all concerned or do they contain fundamental injustices, what are the firm's obligations to their employees and what are the employees' obligations to their employer.

As an example, another IFA commented upon,

> *"The situation now where many advisers are considered to be self-employed - I find that difficult on a number of bases - one of them is, is it a way of avoiding the payment of National Insurance and if it is, where's the moral imperative of that organisation that is purporting to deliver an ethical service to clients when it is at the very least undermining those individuals advisers' entitlements to an enhanced state pension?"(IFA3)*

Another was much more exercised by the notion that in an effort to raise the ethical behaviour of advisers they should be examined on their understanding of a course set by a professional body. Her thoughts are contained in the following:

> *"People who have integrity assume it and then it's a given and when you start saying well how and they get very affronted when you start having a discussion about levels of integrity – it's questioning – if you're a trustworthy policeman, then the fact that somebody questions whether you're a trustworthy policeman could be a matter to be affronted by.*
>
> *On the other hand you might say, well actually there have been quite a few people who have not had clients at the heart of their behaviour, who had not done the right thing, they've put their own gain, usually financial before anything else. They've played with other people's money, I was going to say, as if it's their own, but I don't think they have – I don't think they would have played with it in the same way if it was.*
>
> *The struggle I had with this sort of compulsory study of ethics was that there is a body of people who are already in this business and then we're all supposed to sit down and do Level 4 chapter thingy of the CII book on ethics and I know that some people say Christ it's obvious isn't it, but it's clearly not that obvious. Otherwise some people wouldn't get it so cosmically wrong, so it isn't entirely obvious. It might be natural to an individual, but it's not natural universally but if people haven't got it I don't think you can sit down in a room and do a case study and make people have it."*
>
> *I think to me that was part of the conflict about trying to do it with an existing set of people and either you accept that everybody in that room - the 24,000 advisers all gathered in that one room, are all ethical in which case this is all a bit of a paper exercise just to say that we're doing it, or we accept that there are some people of that 24,000 who are not, but if they aren't, if they haven't got it how can I make them see that, especially now as a long in the tooth seasoned adviser who's been doing that for donkeys years - if he really doesn't see what's wrong with it and hasn't done for the last 40 years me sitting here simply telling him about it, it seems to me that I'm unlikely to change his mind because it's a mind-set, it's not a set of rules. It would be obvious to somebody with ethics and integrity to not sell somebody something, or to not to do it just to get the target, or to not do it because your sales manager's on at you, or to whistleblow, but if it's not obvious to people to do that then me sitting there saying well here's a case that's a really good idea isn't actually going to make you – it might actually challenge you but it's what's in your heart - I don't think is just going to change because I put it in a course note for you." (IFA4)*

That ethical standards should be at the heart of the business relationship between adviser and client is recognised here, because the business so often involves the application, protection or acquisition of client funds. How it is to be achieved whilst incorporating the complete avoidance of a conflict of interest is the challenge so often side-stepped, either inadvertently or deliberately.

Consider the codes of four different types of professional bodies as recorded in the following table:

Professions' Codes of Ethics regarding Conflicts of Interests	
Professional Body	Guidance on Conflicts of Interests Issues
The Association of Accounting Technicians *(AAT is sponsored by the Chartered Institute of Public Finance and Accountancy (CIPFA), the Institute of Chartered Accountants in England & Wales (ICAEW), the Chartered Institute of Management Accountants (CIMA), and the Institute of Chartered Accountants of Scotland (ICAS).*	A member in practice must take reasonable steps to identify circumstances that could pose a conflict of interest. Such circumstances could give rise to threats to compliance with the fundamental principles, for example a threat to the Objectivity Principle. A threat to objectivity may also be created when a member in practice performs services for others whose interests are in conflict in relation to the matter or transaction in question. A member in practice must evaluate the significance of any threats. If the threats are not clearly insignificant, safeguards must be considered and applied as necessary to eliminate or reduce them to an acceptable level
The Law Society	An Own Interest Conflict means any situation where a solicitor's duty to act in the best interests of any client in relation to a matter conflicts, or there is a significant risk that it may conflict, with their own interests in relation to that or a related matter. Fee agreements are entered into with clients that are legal, and which are considered suitable for the client's needs and take account of the client's best interests. (SRA Handbook Version 10, 1/7/2014)
The Personal Finance Society	The adviser must refuse to act where a conflict of interests exists, save where acting in these circumstances is expressly permitted by a regulator. The adviser has a duty to act in the best interests of any client conflicts, or there is a significant risk it may conflict, with the adviser's own interests
The Institute of Financial Planning	(Included under Objectivity) Any potential conflict of interests must always be disclosed at the earliest opportunity Should a conflict of interests develop after a professional relationship has been commenced but before the services contemplated by that relationship have been completed, a member shall promptly disclose the conflict of interest to the client or other necessary person (Principle 2.08)

Table 9 - Professional Bodies' Codes of Ethics in Respect of Conflicts of Interest

The code of ethics adopted by the accountancy profession deals head-on with the issue of conflict of interest, making it a major part of its courses on ethics by providing copious examples of its manifestation and how to address it. Such ethical codes should assist in focusing upon the definition of integrity that it contains the quality of being honest and having strong moral principles. They are after all essentially extensions of John Stuart Mill's Rule-based Utilitarianism and as such should not contain insurmountable obstructions. (Mill 2007) Professional accountants and lawyers do of course, start from a position of charging fees for the work they do, thereby clearing one of the main obstacles on the road to conflict of interest avoidance.

That no-one offered comment on philosophical ethics, or cited such thinkers as Immanuel Kant, John Stuart Mill, Jeremy Bentham or Karl Marx might suggest that the ethics courses provided by the professional bodies to enhance the understanding of their members either omitted or failed to emphasise the importance of their contribution to the subject.

Integrity in Practice

When discussing the practical aspects of integrity it is often easy to overlook the fact that in business there are always at least two parties to the transaction. One of those is the consumer, frequently portrayed, by groups such as the Consumers Association, as the perpetual victim. That it is frequently overlooked was emphasised by the fact that only one IFA recognised the phenomenon of consumers making false or very doubtful claims for compensation in a variety of scenarios. She commented,

> *"We also have a compensation bandwagon issue I think – you only have to look at the Payment Protection Insurance claims, and low-endowment policies mis-selling, it'll be contracting out of SERPS will be the next one. Divorce Lifeline who are trying – whether you agree with them or not – are trying to persuade people that maybe their pensions during their divorce process has been undervalued so come and see us and we'll get more money for you, completely undermining the court order, potentially, but in some cases possibly doing it and arguably a good job, but in the wrong way, going about it in completely the wrong way in my view. So integrity is not just down to the adviser it's down to the client as well. So if you've got somebody for example who you've been, you've really had a good working relationship with and then they decide, oh well I could put in a claim against you – oh this bloke rang up and said you could claim some money on that endowment that you sold me, not that I did, but you know, and so I'm just putting a claim in, all right? They have no idea of the impact of that on the adviser and you say – well hang on a minute, do you realise you're putting in a claim against me. "Yeh, yeh, but it's not against you – it just like I get a bit of money," but*

> *actually it's the integrity of the client as well as the integrity of the adviser that is important. It's an issue of ethics – it works both ways."(IFA6)*

Whilst little by way of themes emerged from the financial planning sector concerning the ethics of product providers, other than an IFA's robust comment on the relationship existing between client, provider and adviser and the providers' willingness to seek to deal directly with the consumer, ignoring the client/principal relationship with the IFA, it is important. This issue arises in part because of the commercial advantage being sought by the provider by ignoring the client/adviser relationship and also because the provider may be selling a product which is inappropriate in the particular circumstances and which only the client's adviser is properly placed to understand.

The issues to which this adviser refers are not isolated incidents; the trade press frequently carries letters from irate IFAs who have become aware of direct approaches being made to their clients by insurance companies that have been introduced by the IFA to that client. Insurance companies deal in the production and distribution of financial products, but they do not deal in financial planning and it is in this respect that IFAs feel their clients can be disadvantaged. Activities of this nature undermine the relationship between the adviser and provider and question the integrity of the latter.

There is a suggestion that integrity might be a function of trust, that is in the form of promises kept or broken, with one contributor suggesting that it was all about honesty. Much of the content of the contributions reflected the view that integrity itself was shaped by a highly prescribed and costly process. Indeed as most recent regulators have taken the view that regulation is now principles-based as opposed to being strictly prescribed there was now difficulty in interpreting some of the intention.

So it was interesting that where the idea of integrity was understood it was felt that it was guided by rules rather than it being a culture in which any or all of the actors should be performing including not just financial advisers, but product providers and consumers. Notwithstanding this, it became clear that in many cases the contribution was about the perception of trust rather than integrity.

The existence of some form of prescription, or a framework covering integrity was not referred to by any of the provider contributors, despite each one of them being prompted by reference to the PFS and IFP Codes of Conduct.

Advisers' Integrity in Practice

Those who work do so in part to ensure that they earn sufficient income to meet the demands of their lives. That represents the "what", but not the how. In the part of the financial services in which advisers work the tradition has been to create income by selling the products of insurance companies and fund managers.

Remuneration has been provided, in the main, in the form of commission based upon a percentage of value and the rate of compensation has been set by the product provider, often, it appeared, agreed by them formally or informally in cartel style with their competitors.

These salesmen or women, but mainly men were originally either directly employed by the product providers or acted as their self-employed agents, either for one company or multiple suppliers. The more they sold the more they earned and before 1988, when the Financial Services Act 1986 came into force, the practices employed to achieve sales volume were almost unrestricted. Caveat emptor was the cry, as though that covered everything.

The aforementioned Act required these salespeople to re-identify themselves as either being directly employed by the providers, self-employed but restricted to selling the products of one supplier or independent. Twenty-seven years later we have a situation where the direct sales forces have all but disappeared in a cloud of mis-selling fines and compensation payments, to leave an environment of selling direct, but without advice, via the media or distributing products through financial advisers having unrestricted access to products or being limited to a narrower range. As a reminder, payment of commission by providers to advisers on the sale of their products is now banned, except in the cases of protection policies and group pension schemes. However, advisers primarily apply an ad valorem adviser charge in respect of the acquiring of products on behalf of clients, typically of 3% of the initial fund value and between 0.5% and 1% of its continuing value thereafter.

In Chapter 3.3, when adviser fees were being considered, I referred to the way in which the adviser charges are collected and how that mirrors the way in which commission was once paid, that is via the provider. Given that the investor is not obliged to write a separate cheque for this "fee" at least one IFA contributor believed that this could be seen as sleight of hand and therefore unethical.

"If I see a bird that walks like a duck and swims like a duck and quacks like a duck, I call that bird a duck" (Riley, Alfons et al. 2009). Some might argue that the same principle could be applied to the adviser charge and that the incentive to continue selling products remains at the heart of the financial advice process. Indeed, so concerned is the current regulator, the Financial Conduct Authority, that it has already conducted a survey of firms to ascertain whether they are compliant in the charging of fees and found the majority, 73%, wonting (Thematic Review TR14/6

Supervising retail investment firms: being clear about adviser charges and services – April 2014). A subsequent survey, TR14/21, observed an improvement in these results, but noted continuing issues of concern in respect of process.

Why the concern? Well, if the main source of your income derives from the sale of products, with different types of product offering different levels of reward it might appear to some that which product is recommended could be subject to a bias towards the most remunerative. Any incentive to sell is prone to giving birth to a conflict of interest between what is best for the client and what is best for the adviser, as the next section seeks to demonstrate.

The Ethics Test

An example for consideration was provided to various IFAs, and indeed product providers as will be clear later. It involved a couple approaching an IFA for advice on how to invest the sum of £60,000, recently inherited. The couple advised that they did not want to take any risks with this money as it was really all they had. With the absence of Index-linked National Savings Certificates continuing it was suggested to the IFAs that Premium Bonds would fit the requirement, because they are Treasury Stock, guaranteed to be repaid virtually on demand, offer tax-free returns which are statistically robust, although not certain and carry only the risk of a loss of value through inflation; a low risk investment for a low-risk couple. They do not generate commission or an adviser charge to the introducer.

Responses reflected the way in which each IFA charged their clients. In the case of those being paid their fees by cheque, they felt that by charging a fee they were able to concentrate upon their clients' needs, as opposed to their own, which would be covered by their fee. However, an IFA using the ad valorem approach argued that it was unlikely that investors would want to commit all of the £60,000 into Premium Bonds, without offering a shred of evidence in support of this or offering alternatives which met their fundamental investment risk profiles.

Another rather more nuanced observation is recorded in Chapter 3.3 concerning the characteristics of fees, but repeated below for ease of reference:

> *To what extent then do I think commissions and fees are relevant to the potential for suitable advice for a low or no-risk profile client?*
>
> *I think they have a bearing, because if you're the adviser and you're sitting down and advising the client and your recommendation is that they invest in cash, Premium Bonds, National Savings and they do no insurance-related products that's fine and the client should be engaging you for your advice. In the past your relationship was I wouldn't charge you for the advice, I charged you on the transaction, but if the transaction doesn't remunerate in*

anyway then clearly there is an issue because the adviser's not going to earn any money.

So I think the key to that situation is if you don't remunerate the adviser, you know it may be mandated by their advisory firm to recommend cash, recommend National Savings, but ultimately if there's no income generated for the firm that adviser will not will not stay if there's no income coming in. So really if you're the client you need impartiality, therefore you need to be paying for the advice.

The problem for the client is historically it's not – it's never been talked about paying for the advice or they've not wanted to pay for the advice – they've wanted it on the transaction, so what's that's led to is a whole chunk of solutions never being recommended. I find it difficult to believe that anyone in an advisory firm who never sells anything or has any income coming in for the firm will stay in that firm - either they will go or the firm will get rid of them. So clearly it has to have a bias if you're not charging for your advice. For me the key is, we'll charge for the advice. (IFA5)

This contributor couched his response in terms of a firm of numerous advisers and drew in points about the firm's methods for producing income, whilst retaining advisers. Scale it seems to him has a bearing on whether integrity is present (Baxter, Megone et al. 2012). The word integrity, it is believed, is an absolute term; it is not possible to have a small amount of integrity or a comparative level of integrity – it is either there or it is not, or so it is argued.

Product providers' responses to this Premium Bond scenario included only one that acknowledged that there could be a conflict of interest for the adviser, but in the main they did not appear to understand the presence of a conflict of interest, before having it drawn to their attention. Having been so prompted and provided with an example, one contributor said that the scenario was unlikely because sums of between £30,000 and £60,000 were too small for an adviser to be considering and another suggested that where non-commission-creating products enquirers kept calling at your office they should be sent away as they were not the type of client that you should be seeking as a financial adviser.

Despite considerable prompting, not one contributor recognised that by charging fees for time and activity that conflict of interest could be avoided.

<u>“My Word is my Bond,” isn’t it?</u>

As a final set of observations on the issue of integrity and its place in the world of financial services consider the offering from this financial adviser:

> *“In the old days across stockbroking, of course, before financial planning was even a glimmer in the eye of the regulator, stockbroking and banking services were conducted on the basis of “my word is my bond”.*
>
> *Banking in particular seems to have lost that completely, so integrity has many connotations really; it can be “I’ll be transparent about my fees” or it can be “if you ask me to advise you on an area and I am not competent to advise you in that area then I will tell you and I will advise you that I know somebody else who is competent to advise you.”*
>
> *In an ideal world integrity should form the core of the financial planning offering and the related offerings. I think that big corporates have lost their way - banking has lost its way - will it come back - don't know.*
>
> *In terms of how do you monitor it and how do you manage it in a small organisation - it is easier to instil a culture of integrity, of fiduciary responsibility if you're walking the factory floor with your people - I think as you get further and further divorced from that, it becomes more difficult to do so - not impossible. That's one of the challenges around scalability - I think one of the biggest barriers is that the culture within retail financial services has for so long been - if we ignore the product providers - I started out with direct sales - the culture was sales, sales, sales, sales and a blind eye was turned to churning, or if not turned at certain levels of management it was, it was absolutely encouraged and I think in the direct sales force, does that still go on - as I said earlier, you'd be hard pushed to prove that it does, but something is not right in the state of Denmark - there would be a lot of financial advisers out there who wouldn't know integrity if it bit them in the backside.*
>
> *So the reality is that there is a lot of work to be done at the fundamental cultural level to demonstrate integrity - you’ve got to build the fences - I’ve often said when people talk about regulation, I don't enjoy working in fear of the regulator, but as an industry we get the regulation that we deserve.” (IFA3)*

Is this commentator looking back to a truly golden age, or is it more a case of rose-tinted glasses with time papering over the cracks. Does it matter, when it is the future to which we should be looking, both in terms of survival and development? What may have worked in the past may or may not in the future and certainly his remarks on the chicanery which accompanied the activities of some product salesmen should provide guidance on where that future should not be planning to go.

Transparency Issues

The overall aim of the latest legislation and guidance is to put the consumer in a position of having total clarity with regard to the service being offered and the fees being charged for that service. Therefore, if competence deficits are addressed, as raising the qualifications standards would suggest is happening and the mysteries of how fees are being charged is coming under the closer scrutiny of the regulator, then what remains is for the cultural log to be removed from the conflict-of-interest jam. This will require changes to firms large and small, (although as suggested by numerous contributors, in different ways) but the outcome should be that the consumer will be provided with total transparency. They in turn will need to exhibit a willingness to pay for the services, of course, as integrity of the client would presuppose.

Of course, in a world where there is absolute integrity these actions would not be required because the impediments would not be there in the first place.

Reflection and Observations

Few things in life are more frustrating than setting a topic, inviting a number of individuals to discuss it and then finding that they will do anything but that. The discussion on “integrity as a shaper of the financial planning process” was ultimately shape-less. Participants offered their thoughts upon the ethics of providers, or advisers and occasionally consumers. Any discussion of ethics was wrapped in a cloak of professional and business ethics, without any reference to the philosophical ethics upon which our society and that of most others has developed its thin veneer of civilisation. To maintain the pretence that they were keeping to the matter in hand an occasional mention of the word trust was made, but this seemed to take us further from providing an identity for integrity and was not remotely connected with how it might shape the future process of financial planning.

From all of this it has to be assumed that the governing corpus of the financial services sector gives very little guidance on what it expects in terms of integrity or where it might be found in sufficient quantities to ensure the future security of the financial planning element of that sector.

At a retail level financial planning ought to be the public and respected face of the sector, but over the past few decades hardly an opportunity has been missed to undermine the prospect of that image being acquired, let alone maintained. Product providers have joined forces with the major retail outfits to sell whatever financial plans they have designed for the purpose of enhancing their profits, regardless of whether or not they were suitable for the purposes of the consumer. The result has been a series of large-scale reviews and investigations into alleged mis-selling, slavishly recorded by a media hungry for news and very willing to forget their part in it. Some chickens have come home to roost, forcing insurance companies to relieve themselves of the tiresome business of running their own sales forces and thereby avoiding future fines and compensation claims arising from the provision of unsuitable advice. The retail banks, having suffered one catastrophic investigation after another and being forced to set aside billions of pounds for compensation for payment to their misled customers are reassessing their relationship with the financial planning sector, with many closing their financial advice teams, whilst licking their wounds.

Whilst selling is not a sin, and indeed without it most commerce would collapse, the methods employed within the financial services sector have come close to it on occasion. Forty years ago insurance companies sold savings plans, often linked with life cover, or simply life assurance on its own. It was sold to all levels of society allowing all to benefit to a greater or lesser degree. Banks then bought building societies and with it the opportunity to sell "low-cost" endowment polices "guaranteed", they claimed, to repay the mortgages the banks were arranging and show a surplus as well. The profits rolled in and bank broadened their ambitions, moving in to the selling of pensions, transferring final salary pension funds into personal pension schemes, selling precipice investment bonds and payment protection plans to cover loan repayments in the event of illness. Every one of these very profitable ventures has led to banks being found culpable of mass mis-selling and required to lose all of that supposed profit and more to satisfy the regulators' fines and customers' compensation claims.

There was a time, some fifty years ago, when a bank manager was to be considered a pillar of his community and of impeccable integrity. Contrast that with the general public's view of "bankers" today. Greed, of an individual and corporate nature, has exhausted all of that respect and taken with it an entire sector.

If the Institute of Bankers professional examinations had been more demanding in terms of ensuring that their members were conversant with the technicalities of financial services then that enhanced knowledge might have gone some way towards avoiding the catastrophe (Agius 2010). The same observation applies to the examinations of the Chartered Insurance Institute whose own examinations menu included very few relating to investments, pension and life assurance when the Financial Services Act came into being in 1988. Again had members had been better informed disasters might have been avoided.

Now many years later we find ourselves in a situation where all financial advisers are qualified to a standard unrecognised so long ago, with many holding higher degrees, yet having to work in an environment whose public image borders on contempt. Furthermore, the supply model with which they work, both in terms of financial products required and knowledge provision is hardly fit for the purpose of supporting a modern consumer and a regulator beginning to come to terms with the reality of what is wrong, if not quite having determined how it might be corrected.

Having had long discussions with so many contributors I am convinced that many, both of the old school and the newly evolving one, have at heart the best interests of their clients and an intuitive sense of integrity, however interpreted. They are restricted in their desire to break free of this chrysalis of ambition by a failure to be encouraged to embrace the one tool which will allow them their wish, the introduction to their clients of fees based upon cost and activity. Surely the knowledge for this should have been provided many years ago by their professional bodies, or why else would these bodies exist.

The problem is that the main professional body is one set up more than a century ago to represent those selling insurance products and naturally enough calls itself The Chartered Insurance Institute (CII). The mantra of the insurance industry is “caveat emptor,” or let the buyer beware. Legally that warning has served the insurance industry well during a time when the UK was and remains a leading provider throughout the world. However, financial services is not insurance per se. Financial planning almost certainly includes insurance protection, but that is not the main purpose, simply a component. So we must ask is the CII, through its surrogate the Personal Finance Society, the correct organisation to provide professional support and guidance to financial advisers, or indeed is it in a position to be impartial enough to fulfil that role.

A quick look at its accounts demonstrate that its survival rests upon the receipt of large donations from interested parties, thought to be insurance companies and one must assume that as commercial enterprises they are not making such payments out of a sense of altruism, but with an eye to influencing proceedings. Given that the CII is a body representing insurance interests, although not the only one, this does not seem unreasonable. However, when it comes to financial planning any undue influence from product providers, whose products only form part of the planning process, might be considered at best unnecessary and at worst perhaps unwarranted.

However, it would be fair to observe that how the CII arrived at a point where they thought themselves obliged to set up a wholly-owned subsidiary, now known as the Personal Finance Society must be seen as entirely logical. Not to do so would have left the way open to other examinations-setting competitors such as the Institute of Bankers, who indeed renamed themselves the Institute of Financial Services.

Can the same remarks apply to Institute of Financial Planning? Well, not exactly because it was set up with the primary aim of representing financial advisers and specifically to encourage them with the introduction of the fees concept. The fees they appear to encourage, however, bear a striking resemblance to ad valorem, as they call it, which as I have already said look like commissions by another name. How can it be that a body with such high aims appears to have rowed back? A look at their accounts for 2011 and 2012 shows that without generous donations from third parties amounting to around half their income they would not survive (House 2014). Indeed some five years ago their accounts showed a negative working capital figure, which for a limited company is not only disastrous, but without some form of robust guarantee of continuing support would legally lead to its winding-up.

All of these professional bodies appear to take on more than they can manage financially and site themselves in areas which they cannot resource unaided. Whatever the reason for their reliance upon outside funding it is a well-known fact the there is no such thing as a free lunch and the frustration of IFAs in finding themselves without appropriate representation in areas which really matter should be unsurprising. That this matters is confirmed in a paper entitled, *"Testing theories of American politics: elites, interest groups and average citizens"* and expanded upon in Chapter 4 (Gilens and Page 2014).

There is very little point in producing papers on "trust" as the CII did, when the issue is integrity. Trust can be used by a confidence trickster, but integrity is something which they do not have time to build.

It is time which lies at the heart of assisting with the change of culture necessary to change and sustain the growth of the financial planning sector. A failure to move away from the quick sale, high earnings accompanied by little or no long-term service model will ensure that the business using it will emulate its underlying ethos, namely a short term existence. Businesses interested in the longer term future of their clients will find that their clients are interested in the longer term existence of their advisers and pay accordingly. Both parties act in their mutual interest and as a result benefit from the financial long-term rewards which they both desired at the out-set, but not as the first requirement of their relationship.

The following diagram highlights the critical points in determining what sort of financial planning business will emerge from the pathways followed.

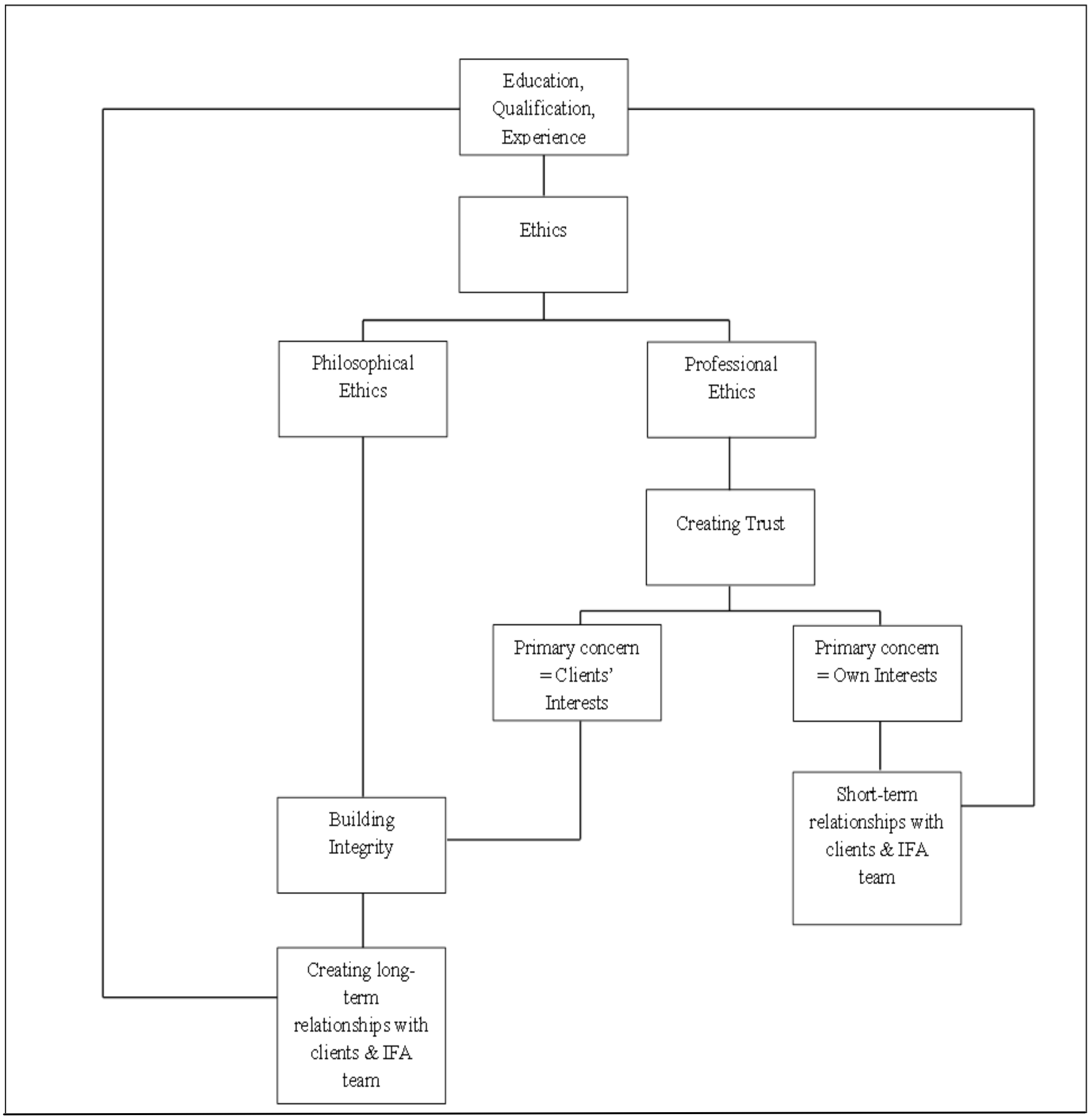


Figure 15 - The Roles of Ethics and Integrity in the Creation of Sustainable Financial Planning Practices

This diagram determines that there are two critical issues, namely,

1. the requirement to embrace not just professional ethics as provided by professional bodies but also the natural ethical guidance provided by philosophers such as Kant;
2. Placing the interest of clients above those of your own and thereby having identified the potential for conflict of interest, avoiding it.

In adopting these two principles not only will a long-term relationship develop with clients, but so will that with the firm's employees whose focus will now be on client needs and the fees they generate, not product sales targets and the need to achieve them to survive. As a consequence the firm’s capabilities will be strengthened by the development of working relationships built upon trust and respect, not self-preservation and with staff becoming confident about their long-term future the firm’s future will also be more certain.

In other words the existence or absence of integrity can and does shape the financial planning process and in so doing shapes its future, so to return to the duck analogy surely the time has arrived when playing ducks and drakes in financial planning should cease.

Section 4 – Destinations Past Present & Future

Chapter 4 – From Broker to Adviser: An Overview of Contextual and Operational Developments in the Sector.

Summary of the Main Themes discussed in this Chapter

- Early Forms of Regulation Oversight
- Categories of consumers and intermediaries and their wants and needs

From broker to adviser, from salesman to professional guide – has this happened and if not how is it to happen and why. Up until the mid-1980s the role of the insurance broker, life or general, was not in question. The firms operated at a local level, knew and often lived amongst their retail customers and survived by being remunerated through a system of commissions paid upon the sales or resales that it generated on behalf of a stable of insurance companies. These stables were structured through a variety of agency agreements between the brokers and the insurance companies. Companies either sought to distribute a narrow or general range of insurance products. Some specialised, perhaps focusing upon just motor or the slightly wider personal lines insurance. Composite insurers sought to provide insurance products across the widest horizon, incorporating personal lines, commercial, marine, liability, life assurance, savings and investments. Some even offered long-term loans including mortgages.

Have we moved on and if so have we done this in a number of steps or one; furthermore has every organisation moved or just some and if the latter will the remainder be able or willing to do so?

The first of two events that altered the context within which these organisations seek to operate was the implementation of the Financial Services Act 1986. It contained a requirement to designate the type of broker and thereby created different classes with different legal responsibilities. Furthermore it determined that caveat emptor in financial services was no longer accepted as being sufficient. Life and Pensions Brokers had to decide between becoming tied to promoting and selling the products of one company, or describing themselves as Independent meaning that they were free to promote and sell the products of a wider range of product producers, assuming that the brokers adopting this stance could arrange agency agreements with those individual suppliers.

The independent determination also confirmed the existing legal responsibility under common law of accepting that brokers, or independent financial advisers as they had begun to style themselves, were acting upon behalf of their clients (note not customers) and as such had to place clients' interests at the heart of their advice, whilst still retaining the right to receive commissions from the product providers as confirmed in Hobbins v Royal Skandia Life Assurance and Clearwater International (HCCL 2012). Indeed the Act spawned the term "best advice" with this requirement in mind.

All of this was an early attempt at introducing transparency to the sector through awareness of the supposed motivations of the intermediary with whom the consumer was dealing.

Early Forms of Regulation Oversight

The first attempt to introduce a set of regulations to oversee the functioning of the financial services sector appears, with hindsight, to have reflected the various vested interests of the sector's players. The overall approach was set in the context of self-regulation with each sub-sector granted the powers to regulate through a Self-Regulating Organisation, or SRO. As a result five SROs emerged, each constructing complex rule-books containing prescriptive directions on what a member organisation should and should not do. Failure to comply with the letter of the rule could result in severe penalties. The press was quick to decry the notion that self-regulation was in the interests of the consumer and sought to undermine it from the start. (It has since undergone an almost Damascene conversion when faced with its own shortcomings) The reality was that the advisers' SRO, the Financial Intermediaries and Brokers Regulatory Authority or FIMBRA, went about its business with an almost messianic enthusiasm, inculcating fear as well as enforcing some much-needed changes (Hamp 1994).

Early evidence of the intention to impose upon these newly authorised advisers compensation costs for pre-legislation activities emerged almost immediately when it was agreed to include in the newly constructed compensation scheme the costs of a scam operated under the name of Barlow Clowes (Lever 1992). Retrospective action often leads to uncertainty being spawned in a sector and so it was in this case (Sampford, Louise et al. 2006). Firms that were entirely unconnected with this fraud, the vast majority, found themselves obliged to pay towards the compensation offered to gullible and/or greedy investors without any real justification being offered for this financial imposition (Lever 1992).

A major shaper was both a child of the Big Bang effect of The Financial Services Act 1986 and the unintended consequences of the quest for a deregulated financial services market to which it gave birth. Activities undertaken in the financial advice sector within the framework and spirit of the legislation were subsequently re-described as being unsuitable and unacceptable. Further retrospective compensation payments were demanded, this time on a monumental scale, following the Pensions Review, referred to in Chapter 3.5. By that time it was decided that SROs were unable to demonstrate to the press that they were capable of regulating their members in an appropriate manner, although evidence to support this was scarce (High and Shah 1993).

SROs were replaced by The Financial Services Authority, who decided that a more efficient and effective way to better regulatory oversight was the principles-based model (Black, Hoper et al. 2007). Commissions remained the normal way to compensate advisers, including the retail banks that had become the major customers of product providers as a result of the second direction-changing event, the Building Societies Act 1986.

This act empowered the management of building societies in the UK to transfer ownership of the societies from members to shareholders. In doing so they stripped away the protection that the societies enjoyed from the predatory ambitions of their bigger potential competitors in the mortgage market by making acquisition relatively simple through the mechanism of the stock market. The commercial banks seized the opportunity and within a relatively short space of time most building societies in the UK had disappeared from the financial landscape (Cook, Deakin et al. 2002). The banks then sought to sell financial products such as low-cost endowment policies, payment protection plans and life assurance alongside mortgages, much of which led to catastrophic outcomes for them and their customers in later years.

The lighter touch of the more widely stretched single regulatory authority enabled independent financial advisers the scope to continue to provide a service to their clients, based upon suitability, advice and regulated product sales. The banks' ability to do the same was often questioned and a succession of investigations by both press and regulator revealed that mis-selling of products had been undertaken by them on a massive scale (Rawlings, Georgosouli et al. 2014). To add to the calamity for the FSA and their overseas opposite number, the USA's Securities and Exchange Commission, their failure to properly oversee the activities of the investment banks catapulted the world into a financial meltdown.

A replacement authority was clearly required and in 2013 The Financial Conduct Authority was born. By then most parties had agreed that the core driver of the financial collapses of bank and other institutions was greed. Greed was the motivator and commission-based sales of financial products the instruments for satisfying that greed, or so it was thought (Visser 2011). As a result both the outgoing regulator, the FSA, and the incoming regulator the FCA decided that the payment of commission for the selling or providing of financial products, with a few exceptions, was to be banned. That came to pass with effect from 1st January 2013, although the definition for a commission was not made clear by them. In Chapter 3.4 such a definition is provided, although not to the regulator's particular advantage.

From a position where just brokers and company salesman inhabited the financial services sector we now have four different types of intermediary, some with evolutionary geneses being detectable; some old survivors, some new species and some possibly facing extinction. The Service-Focus Quadrant serves to identify who and what they are and how each type addresses the different demand requirements of particular consumer categories.

The Service-Focus Quadrant

		Consumer Espoused Requirement	
		Restricted Wants	Unrestricted Wants
Adviser/Intermediary Service	Financial Products Agency Supplier	*Crocodile Type* Limited Product Range Commission based sales model not requiring advice	*Amphibian Type* Broad Product Range Wider product range offered with some advice
	Financial Advice Primary Supplier	*Simian Type* Financial products and associated advice Tendency to link advice to Adviser-charge producing financial products	*Homo Sapiens Type* Holistic financial planning advice Standalone fees based upon service provision cost.

Figure 16 - The Service-Focus Quadrant

The Crocodile Type - Sales and Execution only

So was there a need for the intermediary/broker sector to change? Well, yes and no.

A changing environment in the form of statutory regulation appeared to lead to the disappearance of the broker, in the sense of facilitating the interfacing of a provider with a consumer, until its re-emergence in recent years with the introduction of the concept of execution-only business.

With execution-only business the customer determines a requirement and gives instructions to the broker to execute it. Apart from ensuring that the source of funds does not breach, or appear to breach the money laundering regulations, the broker's only duty is to arrange the purchase of the financial product and charge a commission for the work undertaken. Under no circumstances must advice be provided to the customer and it is this rule that makes execution-only business attractive to very few financial services intermediaries. However, where it does prevail little has changed from the days of pre-1986, although those working within this narrow sector will certainly have developed a greater knowledge and understanding of their product range.

This group of organisations mirrors the ability of some species to survive within a generally changing landscape, which offers much smaller niche environments that remain capable of sustaining their unadapted lifestyles. It is the crocodile state, identified in the Broker to Adviser Progression Table, shown below, that survivor of the ancient form of life manifested by the dinosaurs who in general could not adapt to the rapidly altered environment.

In the Broker to Adviser Progression Table this group of Sales & Execution Only firms is identified as serving Customer Wants, without guidance on the suitability of the product. In terms of its ability to transition into a fees-only advice-providing organisation it is the sector least capable of doing so; conversely it is the sector that is most able to avoid the need to change, since its role is protected by the existing legislation covering the restriction on the payment of commissions to their form of product facilitation. Like the crocodile it is a hardy beast with a tenacious determination to survive by protecting its territory wherever it can.

	Customers		Clients	
	Wants only	**Wants/Needs**	**Wants/Needs**	**Wants/Needs**
Category of Provider	No Advice Brokers	Limited Advice Brokers	Limited Advice Financial Planners	Holistic Advice Financial Planners
Development Level	1. Crocodile Types	2.Amphibian Types	3.Simian Types	4.Homo Sapiens Types
Organisational Focus	Short-term Sales targets	Short-term Sales targets	Sales & longer-term relationships	Short-term & long-term sustainability
Organisational structure	Fundamentally sales teams; can be single or limited person structures	Generally sales teams arranged on a larger scale	Single or limited person structures including paraplanner & administrators	Coordinated multi-skills organisations
Charging structure	Commissions	Adviser charge & commissions	Adviser charge, simple fee & commissions	Activity based fees
Intermediary role	Source financial product on customers' instructions	Address want, suggest need & provide suitable product	Address want, identify need & provide solutions	Address want, identify need & advise on required tactics & strategy
Perceived barriers	Ban on any form of advice resulting in a lack of advice competence	Poor quality compliance oversight. Short-term management techniques Qualifications thresholds	Regulation costs Lack of confidence & methodology for transitioning to fees-based practices	Regulation costs. Lack of suitably qualified staff. Absence of suitable professional representation
Experience, Education & Qualification requirement	Basic qualification & limited experience	Basic qualification & limited experience	Professional qualifications & broad experience in financial services	Professional & advanced academic qualifications & broad experience of financial planning
Product & Service Range	Financial products	Financial products with suitability advice	Financial & allied products + advice & limited planning guidance	Holistic financial planning guidance & product sourcing
Integrity	Not evident	Aim to meet professional bodies' ethics standards & build trust	Utilitarian-based ethics used to develop long-term perception of integrity	Categorical imperative ethics used to develop long-term perception of integrity

Table 10 - Broker to Adviser Progression Paths

The protection of that environment is often supported through the deft promotion of self-interest of insurance companies and fund managers through the use of financial support for professional bodies such as the Chartered Insurance Institute and the Institute of Financial Planning, to which I have referred in Chapter 3.8. This allows them to acquire representation, either by direct membership of governing bodies or in the form of providing training courses which emphasise the importance of financial products and their distribution to consumers. Insurance companies are also adept at employing the services of lobbyists, recognising the importance of needing to attempt to influence legislators, both current and potential, in the field of financial services.

The existence of such activity is confirmed in a paper produced by Money Marketing, entitled “Who is pulling the financial services policy strings?” (21/8/2014), which shows the Association of British Insurers meeting with UK Government Departments and the Financial Conduct Authority on thirty-three occasions in a twelve-month period. Banks, including the British Bankers Association, arranged 147 such meetings, all within the last year. The only professional body making similar efforts was the Institute of Chartered Accountants in England and Wales with 26 meetings. Representation of the views and aims of financial advisers through any of their professional bodies did not appear.

Does this matter? According to a paper which appears in the autumn 2014 edition of *Perspectives on Politics* titled “Testing Theories of American Politics: Elites, Interest Groups and Average Citizens”, it does (Gilens and Page 2014). This suggests that not only do ordinary citizens not have uniquely substantial power over policy decisions: they have little or no independent influence on policy at all. However, those with the biggest influence are the economic elites, (defined as those in the top 10% by earning power) and interest groups representing business. Conversely, the research concludes, “mass-based” interest groups such as trade unions have little or no impact. The Institute of Financial Planning certainly has common characteristics of a mass-based interest group, whilst its competitor for the affections of IFAs, the Personal Finance Society exists only as a subsidiary of the Chartered Insurance Institute, which has amongst members of its controlling board representatives of the aforementioned insurance companies.

Whilst the influence of special interest groups cannot be seen as being automatically negative, since they bring to the table of the legislators their expertise and perspective on the potential outcomes of following particular directions, the possibility that such influence will also provide fertile ground for a continuation of a self-interest which conflicts with the aims of the proposed legislation continues to exist. In other words it fails to avoid a conflict with the interests of other less well represented, but no less important groups. Again this raises the question of the quality of independent representation for the group of IFAs intent upon developing fees-based practices.

A major manifestation of this political choreographing is the espoused determination of the Financial Conduct Authority to eradicate the payment of commission from the functioning of the retail financial services sector with the reality that insurance companies have replaced the term commission with the nomenclature Adviser Charge. Their defence is that the adviser charge has to be agreed with the consumer before it is paid to the adviser. As already commented upon in Chapters 3.3 on the characteristics of fees and 3.4 on the features of commissions in a financial planning context, these charges have identical characteristics to commissions and have now spawned ongoing adviser charges to add to the burden placed upon the performance of the financial product.

So whilst the Crocodile intermediary continues to earn commission on sales of financial products, the technically described financial advisers of all types have to resort to other terminologies, but not necessarily different methods.

Finally, before concentrating on the characteristics of the Amphibian type of adviser it might be worth reflecting upon how deceptively similar, from a distance, the outline of a newt appears to a crocodile.

Amphibian Types - Financial Advisers

When life-forms developed an ability to live in water and on land, the amphibians, they did so and continue so to do by living around the margins of their former environment. The manoeuvring over the terminology applied to incentive payments, commission to adviser charge, has allowed those formerly in the “crocodile” category to mutate into amphibians. They continue to operate close to their former environment of selling financial products to customers, but justify their imposition of an adviser charge by providing product suitability guidance, as they are required to do under statute (Alcock 2000).

Retail banks have occupied this landscape for many years, but have now discovered that their drive for sales has carried with it the risk that their “advisers” had failed to provide accurate justification for the sales that they had promoted. Compensation payments, together with massive fines imposed by a very frustrated regulator, have served to wipe out profits for later years and forced those banks to consider whether they should continue to operate in that area of financial services sector at all and if so whether the employment of sales targets was an appropriate tool.

Conversely, according to a report from the Economist Intelligence Unit *(A Crisis of Culture – valuing ethics and knowledge in financial services 2013)* more than forty years ago Handelsbanken decided that the setting of sales targets for its branches was inappropriate and left the efficient, effective and profitable management of each branch in the hands of its local management. Its only concern is that its return on equity is above the annual average of its peers and where it is each employee receives a share of the profit. However, this is only payable at the age of 60, thereby removing the damaging aspects of short-term incentivised remuneration. This bank has beaten its Return on Equity target in each of the last forty-one years thereby providing encouragement for the notion that short-termism is not the route to sustained rewards (Wilson 2013).

Rather more recently the wisdom of Handelsbanken was supported by the actions of UBS, a Swiss international bank. Their recovery from the disasters of 2008, referred to later, embraced a wider reassessment of its wealth management mandate and led to wealth managers and even their retail staff being retrained to focus upon advisory services rather than selling products (*A Crisis of Culture*, *Economist Intelligence Unit 2013*).

How successful were UBS in turning their business around from the disaster of 2008 when they suffered losses of US$17 billion? Those events were seen as a wake-up call and they vowed to redefine their wealth management structures to ensure that their various divisions would, in future, work together for its clients' benefits, rather than operate in separate silos. (These silos included wealth and asset management, retail banking and investment banking). In July 2013 UBS had not only returned to profit but had also become the world's biggest wealth manager (Broom 2013).

With these amphibian types withdrawing from the distribution channel a massive problem emerges for the insurance companies. Not only were vast tranches of products sold through banks now being treated as never having been sold at all, but a major source of future sales was disappearing. It should be remembered that insurance companies measure their performance partly by recording their new business volumes over short time-spans, not the level of business previously sold and remaining under their management. The churning of products, that is encashing or cancelling an existing policy/investment and replacing it with a new one, generally at a cost to the customer, favours businesses measuring their success rate by the levels of new business achieved and ignoring the maxim that whilst turnover is vanity, profit is sanity.

At the other end of the spectrum a fees-only financial planner can measure success on the basis of total fees earned from the provision of advice and the major transparent source of those fees will be from existing clients. As a result organisations in the former category can be subject to a conflict of interest between their own aims and the preferences of their customers.

Amphibians are naturally under constant threat. If they attempt to return to their former environment they will come under aggressive attack from the natural survivors of that realm. However, they are not equipped to survive in the margins they currently occupy and as a consequence their numbers continue to decline (Clinch 2013). Hence, perhaps, the regulators concern that some Amphibian types attempt to pass themselves off as crocodiles when the selling of a product without advice on its suitability is convenient, using the camouflage of a "bamboo curtain" between the two separate activities undertaken within the same organisation (Abrego, 2014).

Simians and the Independent Financial Adviser standing up for Clients Interests

As amphibians evolved in the natural world some began to recognise that to enhance the likelihood of their flourishing in the future they must expand upon the range of skills and environmental engagement and the earlier they did so the greater the chance that their species had of thriving.

When we speak of a child reaching adulthood we often refer to their being able to stand on their own two feet. To reach this level of independence and remain equal to the challenges that lie ahead it is necessary to acquire some basic skills and knowledge, which they do at an early stage in their existence. For those determined to be more successful and useful to the society in which they live, as opposed to simply surviving, a recognition that continuously developing their skills and adding to their knowledge banks not only assists in meeting those aims, but also separates them from the crowd.

For the financial adviser wishing to flourish in the world of personal finance a recognition that working in the service sector requires more than simply doing what they do well is required. Identifying and then determining how to satisfy the requirements of consumers in a targeted sector of the market at a profit is necessary. D H Maister's Second Law of Satisfaction states that satisfaction is the process of meeting or exceeding the expectations of a client/customer. Thus we reach a point where meeting that client's want will satisfy them, but addressing some of their previously unidentified needs will demonstrate the advantages of discussing financial planning needs with an organisation that is not simply focused upon making a sale to their short-term advantage, but has at its heart the client's longer-term interests (Maister 1984; Dickson, Ford et al. 2005).

Maister's Second Law does not suggest that every need has to be addressed immediately or at all, but it does emphasise the need to ensure that the sale of a product is made on the basis of it being consistent with the needs of both the buyer and the seller. In theory, at least, this should ensure that conflicts of interest are avoided. Independent Financial Advisers categorised as operating in this way can do so only after acquiring professional qualifications at an advanced level whereby they have an in-depth understanding of the wider technical spectrum of financial planning coupled with a practical application of the professional ethics standards set by their professional body.

Because of the innate contradiction of placing clients' needs first with being a party to more than one primary agency agreement, this group of IFAs would find it almost impossible to function as part of a financial services network organisation. The contradiction is often a consequence of the network being the body directly authorised by the regulator and the adviser firm and their employees being granted an appointed representative of the network status. This makes the network the gatekeeper to the future maintenance of authorisation to practice and the holder of considerable power over its member firms with regard to the setting of rules and minimum standards of activity required to continue to retain membership. In other words the member firms lose overall control of their operations and the fulfilment of their purpose to serve their clients appropriately (Carney, 2011). That is not to say that the outsourcing of certain needs, such as compliance guidance, to third party specialists should inhibit the ability to place a primacy of focus upon the legal requirement to act appropriately upon behalf of a client. Therefore, a decision regarding whether to become part of a financial services network is one of critical strategic importance and not simply a "make or buy" assessment (Welch and Nayak 1992)

Training and continuous professional development requirements can have a critical influence upon the way in which organisations operate, because within the process of disseminating practical information for employment within the practice cultural influences can also be interwoven. Insurance companies have long recognised this and seized the opportunity to be considered the primary source of such training. Their success in inculcating an ethos of maintaining a focus upon product sales has been underpinned by their willingness to spend large sums of money training and updating financial advisers, who are supposedly entirely independent and therefore separate from them. Insurance companies are profit-making entities and allocating substantial funds for this purpose must therefore have a considerable self-interest as opposed to altruistic motive, as one would expect.

This is why it is important that IFAs wishing to develop and maintain a level of independence should have a balanced programme for training and development demonstrating a greater reliance upon the services of their professional and educational bodies. It is why those professional bodies need to ensure that they are much less reliant upon funding from insurance companies and far more focused upon the needs of clients, as revealed in Chapter 3.8. This could lead to them taking a very close look at their professional ethics standards with a view to dealing with the glaring avoidance of addressing the conflict of interest issue emanating from a focus on selling products that provide commission income, or adviser charges in the revised parlance.

As things stand it is more than possible to meet the professional standards set by the professional bodies, and still have a conflict of interest issue, as demonstrated by the Premium Bond test referred to in Chapter 3.8. The difficulty is that where sources of income rely upon product sale a failure to make that sale can ultimately translate into commercial failure. It is one that can only be overcome by transitioning to an operational method which ignores product sales and relies upon advice with fees reflecting the cost of providing that advice. Identifying that cost is, therefore, vital.

A weakness for IFAs operating within this "Simian" grouping is that whilst they will invariably seek to act in the client's best interests, it does not always work in reverse. Sometimes this is a matter of woolly disorganised thinking by the client or potential client, but sometimes there are moral issues whereby individuals attempt to acquire technical guidance and advice without ever having to pay for it. This has always been a weakness of the sales-based remuneration model and is responsible for two unintended consequences. The first is that a great deal of work can be undertaken without reward so the adviser becomes alerted to the need to employ more forceful selling techniques in an attempt to avoid this. The second is that the pressure to meet targets that will assist the organisation to survive is increased where time has effectively been wasted on non-remunerative activity and that pressure converts into a greater emphasis on making a "sale" to the next consumer, which may not be as appropriate as following higher ethical standards would require.

To avoid and overcome the drawbacks underpinning this type of sales-remunerated model a method of agreeing at the outset of the relationship between adviser and client as being rooted in paying for the advice and its underlying associated processes is required, which is where the final stage in the Broker to Adviser Progression Paths Table takes us.

Homo Sapiens Types and the Wisdom of Financial Planning for a Fee

The evolution or transition of IFA firms to cost and activity-based fee charging independent financial planning can be followed by considering the attributes, aims and constraints of the previous class of IFAs and comparing these with improving the range of services for clients whilst at the same time overcoming any constraints which might impinge upon that relationship.

This is to a great extent a matter of competence and will; for the IFA wishing to provide a client-focused service inclusive of providing remunerating financial products accompanied by a high standard of technical advice the level of competence within the organisation must be supported by higher professional qualifications which cover not just an understanding of the wider range of products, regulated and non-regulated, but are supported by a management structure that is framed by a formal medium-term plan. It will almost certainly be an organisation employing a number of advisers who will each have particular specialisms to run alongside the basic financial advice requirements, referred to in Chapter 3.5. Continuous training will also be a core feature of that plan, not an inconvenient obstacle to be tackled as a minimum requirement to maintain authorisation.

However, if clients require a more sophisticated form of service the firm will need to have at its disposal, in addition to all of the above, competences that have been gained outwith the sector, because sophisticated holistic financial planning requires the recognition of the broader context and recognising context is an art form most developed in academic, not professional circles (Rumelt, et al 1994)

From a client's perspective what is important is that their investments are suited to the continuous fulfilment of their financial plan and that their financial plan is constructed in such a way that it can succeed within a volatile future. Selling a product to meet a particular current need, perhaps within a period of a rising stock-market may not, therefore be suitable within a context of, for example, a looming UK general election, Scottish independence ambitions, or potential open warfare in an area critical to economic stability such as Saudi Arabia (Dyson, 2004).Very little of this need for attention to political and economic factors is addressed within professional qualification curricula, whereas its importance is very high when attempting to create a balanced and flexible plan suited to a client's risk profile, wants and needs.

The additional attributes needed to meet these additional levels of practising competence will of necessity involve acquiring an academic understanding of these techniques, almost certainly at master's level for management and certainly not below bachelor's degree level. In that respect I refer in Chapter 3.5 to Smith's argument for an increasing presence amongst IFAs of high academic achievements as a way to ensure a great deal more lateral thinking being imported into the sector (Smith, 2014).

There is however, a further change that is required to the fabric of the organisations' processes and ethos and that relates to the ethical standards employed to drive forward the attainment of the firm's stated purpose. At present sets of professional ethical standards are set by the various financial services professional bodies. The weakness in these standards is that they manifestly avoid addressing the issue of conflict of interest, possibly because they recognise that to do so would conflict with the providers' needs to sell financial products and providers protect their own interest by establishing either a direct or indirect influence over those bodies.

The recognition that the avoidance of such conflicts requires single-minded concentration upon the employment of Kant's categorical imperative is high-minded, but in practical terms, and certainly in terms of the three previous classes of advisers, likely to be costly in terms of short-term profitability. However, if the client is to be the focus and the highest ethical standards employed to drive that focus then a model for achieving this to the advantage of both client and adviser is required for the long-term. It is combination of the employment of the highest ethical standards with the practical requirements of a business seeking to develop a long-term future that is the challenge; the demonstration of employing business ethics as a rational choice as opposed to a marketing ploy (Hooker, 2011).

Therefore, because such levels of support for clients' needs must come at a cost and to avoid the organisation becoming little more than a hobby in times of economic distress, that cost must be recovered from those benefiting most from its delivery, the client.

Conclusion and Recommendations

Theodore Levitt made it clear that an organisation should only make what it could sell, not attempt to sell what it could make simply because that was all it could make (Levitt, 1960). This observation lies at the heart of the progression contained within the Broker to Adviser Table. But can it make what is needed and if it cannot what other options remain?

We have already established that there is a difference between a want and a need, so an organisation seeking to satisfy a want is not necessarily going to be identical to one satisfying a need (Slater, 1998). That is not to say that one is wrong and the other right, unless satisfying a want is presented as satisfying a need. In Chapter 3.6 identifying a customer or client need and separating it from what they had suggested they needed (Chapter 3.7) was exposed as being substantially different. To determine the full extent of the need, plotting a path and timescale towards meeting it and then bringing the whole to fruition will almost certainly require a great deal more than carrying a stable of financial products of one or more product providers and sticking them over the wound. The consumer, of whatever variety, will require an organisation capable of planning and advising on the appropriate pattern of processes, applications and artefacts required, so the importance of having that organisation describing itself in such a way that the consumer can expect with confidence that they will receive the service, not only that they want but what they need, is key.

To refer back to the issue of terminology used in the financial services sector, is the financial adviser advising on matters of a broad financial character or simply restricting their message to that which facilitates the sale of a financial product? Will an independent financial adviser be independent in the sense that they are beholden to no-one but the consumer for their remuneration and future existence, or are they reliant upon income from the introduction and arrangement of a provider's financial product? Does the term Independent Financial Adviser mean that the person authorised by the financial regulator to bear that title implies that the bearer is independent and competent in matters of broad financial planning or is it simply a convenient but misleading label?

It is clear that the regulator is keen to assist in a process which will eventually lead to all IFAs being remunerated by a fee charged directly to the consumer (FSA, 2013). This should lead, it is believed, to the adviser providing advice which is free from bias and avoids any conflict with the interest of the consumer. Exactly what is meant by the term fee has not been made particularly clear by the regulator and it is this that is sustaining the existence of what is to all intents and purposes a commission, namely the Adviser Charge.

A requirement for transparency in charging clients was deemed to be the answer to the entire difficulties attendant upon the world of commissions. So it is that many IFAs believe that as long as they tell their customers/clients the amount of the fee and suggest that it is for arranging the sale of a financial product the transparency requirement has been met. Notwithstanding the insidious presence within that transparency of the ongoing fee, which usually appears to lack any real purpose or justification, this deception is allowed to continue and we are left asking in whose interests this may be. Certainly, it is difficult to identify any specific advantage to the consumer, but easy enough to see what it is for the “adviser”, namely continuing income without further effort. Conversely, if the advice is given to the consumer and they decide not to purchase through the adviser but directly through the product provider, what is a suitable piece of advice has been obtained without payment, an advantage to the consumer ,but detrimental to the welfare of the organisation.

Let me return to the definition applied to the term fee. This has already been defined as “A payment made to a professional person or to a professional or public body in exchange for advice or services.” (Chapter 3.3) The key word here is “exchange” and was central to a product provider contributor’s remarks about the whole business of financial planning needing to be based upon an exchange of values whereby the IFA made clear at the beginning of the relationship the service they would be providing and at what cost and the consumer beginning the relationship by signing an agreement acknowledging their commitment to paying for that service.

The fee is the identified cost of providing a service or services and invoiced accordingly; it is not the receipt of payment from a fund manager. An unwanted by-product of the process of charging fees carries with it the possibility of there being bad debts arising because the consumer cannot or will not settle their account, but that is a commercial risk that most businesses have to accept. However, it does reinforce the need to screen potential clients for the integrity of both parties to the agreement is essential for the existence of a long-term relationship.

What is important is that the consumer understands exactly what service is being offered and at what cost and that from the perspective of the adviser firm it is confident that all of its efforts, not just some or perhaps none of them, will generate income. On that basis the adviser, assuming that they have the competence, can provide complete unbiased advice suitable to not only the clients’ wants, but also their overall financial planning needs. The existence of and the need for a conflict of interest is removed by separating fee charging from fee settlement.

So can the IFA firm provide for those needs, holistically, or if not how are they to overcome the impediments that cause that restriction. The next chapter looks at the facilities that each of our intermediary/adviser types has and whether it would be possible to use these as a substantial foundation for moving towards the regulator's ideal of a fee-based holistic financial planning world and the financial planner's aim of operating a business with a long-term future, either independently or within the framework of another profession.

Chapter 5 – From Broker to Adviser: Serving Common Interests

Summary of the Main Themes Discussed in this Chapter

- The resources required for progression from broker to adviser
- The accumulation of appropriate competence
- The role of accounting and finance

Wants, Needs and Sources from the Intermediary Perspective

The activities of an organisation, whether planned or emergent, usually start with either determining or believing that a market exists for their product or services. This should then involve segmenting the potential market to avoid exhausting resources inefficiently and then targeting the chosen segment by gathering and then focusing the required resources towards satisfying the identified needs of that targeted population (Wedel, 2000). The term planned might suggest an element of inflexibility, whereas emergent may carry connotations of entrepreneurialism and adaptability. In a world increasingly suffused in rules of compliance and regulation too little planning and too much entrepreneurial pushing of boundaries is likely to lead to disaster. (It could be argued that The Financial Services Act 1986 and The Building Societies Act 1986 were instrumental in giving birth to the former, resulting in the latter) So deciding upon which market the financial intermediary wants to focus should provide the basis for determining the resources needed. With those resources identified where they might be acquired can be considered.

In Table 10 - Broker to Adviser Progression Paths, the consumers' expressed requirements, their segmented wants, are matched to the minimum level of delivery and the type of service provider. It also suggests the developments required of each intermediary type to facilitate a move along the spectrum towards provision of holistic advice funded by client fees and away from product sales and commission remuneration. When considering this table note the link between the Levels shown at the head of each column and the same classifications appearing in Figure 16 - The Service-Focus Quadrant in Chapter 4.

Some organisations plan ahead whilst others attempt to undertake them as they operate, representing deliberate or emergent strategies (Mintzberg, 1985). From discussions with contributors to this research and recorded in Section 2 themes emerged that suggested that organisations designated as being at Level 1 and Level 2 fall within the emergent, as opposed to planned strategy category. That is not to say that such organisations do not have an efficient operating framework, but these are tactical and focused upon the here and now, not the medium to long-term future and as such suggest a barrier has been created in their marketing planning process (McDonald, 1992).

The Level 1, Crocodile Type of financial intermediary seeks to work in the remains of a world that pre-dates the Financial Services Act 1986, earning a commission from the supply of certain financial products, but crucially, without providing any form of advice to the consumer in relation to that supply. Importantly, this type of intermediary meets the need of a certain kind of consumer, namely one that believes that they have the competence and understanding to undertake a financial transaction without requiring professional guidance and consequently are certain about the products they require for their purposes. The Financial Conduct Authority describes execution only sales as,

> *"A transaction executed by a firm upon the specific instructions of a client where the firm does not give advice on investments relating to the merits of the transaction and in relation to which the rules on assessment of appropriateness ("COBS 10") do not apply."*

The Financial Ombudsman Services' interpretation of what is required to ensure that transactions fall within the term require that there is clear and credible evidence that the following rules have been followed:

> *The "clear and credible" evidence that a business usually provides is in the form of an execution only notice. This is a statement signed by the consumer, agreeing that:*
>
> - *they are aware the transaction is execution only;*
> - *they have not asked for or received advice;*
> - *it is their decision alone to take out the investment; and*
> - *the business is taking no responsibility for the product's suitability.*
>
> *If a statement like this is clearly worded and signed, it cannot be dismissed easily. A notice does not have to be signed. But unsigned notices can lead to questions about whether the consumer saw them.*
>
> *An execution only notice can be a stand-alone document – or it can be included as part of another document.*
>
> *(Financial Ombudsman Service, 2014)*

These are "broker-lite" transactions, that is they provide the consumer with the desired product but without a scintilla of advice or guidance in respect of the transaction other than to advise that consumer that a commission will be paid by the product provider to the broker and that the value of that commission will be "£*x*".

What resources will be needed to ensure that this intermediary type can function in an appropriate manner? Sales and marketing are a must and indeed were it not for the existence of the regulators this could be sufficient. Given that professional advice and guidance are not a requirement the level of professional competence with regard to the appropriateness of financial products is not a requirement for sales personnel, although an appreciation of the product range and possible suppliers is. That is not to say that those working in this sector will not be better qualified, but that the requirement for a full appreciation of needs is absent from this model.

However, in the present climate maintaining adequate records of each transaction, including an audit trail is vital if the business is to be able to demonstrate that it is acting strictly within the rules. The regulator's mantra has always been, if it isn't written down, it didn't happen, so written evidence is vital and this requires the employment of administrators, preferably qualified in financial administration and ideally competent in at least the basics of book-keeping. In this respect the work of Thomas Gutheil is illuminating, not least because of his reference to the instant substitution of attitude to suitable record-keeping from soporific to paranoia when faced with the need to present evidence on a case handling to a court of law (Gutheil, 1980).

Crocodiles survive by operating within their own watery habitat, but it is not unknown for them to occasionally seek additional sustenance beyond those boundaries by entering the realm of another species and it is at this point that they come into contact with those seeking to protect their own interests by restricting the aggressor's movements to their natural areas, so strict adherence to the regulations is a must if survival of this type is to continue to the benefit of that particular consumer segment. What is significant is that those regulations are designed to inhibit any form of development of the model.

What about the other types which make up the financial advice sector, the amphibian, simian and homo sapiens, all to a lesser or greater extent sharing the same "above-water" environment and all attempting to survive, but in different ways? How similar are the resources required by each to one another's and in what sense do these aid survival?

To progress from a Level 1, Crocodile type to a Level 2 Amphibian type requires the provision of suitable advice to the consumer, because the service provided is by its very definition not undertaken on the basis of simply following the consumer's instructions and is not, therefore, covered by the rules governing execution only sales. In turn this relies upon the acquisition of the additional characteristics displayed in the Progression Table.

As in nature the Amphibian type is the most vulnerable to decline and extinction (Think of the newt). In nature attempting to return to its original environment is fraught with danger, not the least of which is the crocodile desperate to destroy anything that appears to threaten its own existence. In financial services this sector is inhabited by those least qualified, meeting only the minimum standards by way of examinations that have become suborned by a multiple choice approach to testing ability. Furthermore, they operate in the sector most wedded to the achievement of sales targets, rewarding failure with the loss of office. In such a climate placing the customer's needs ahead of the adviser's is expecting a signal change in the natural order of things. Ethical issues are managed mechanically by ensuring that the professional standards required by the professional bodies are met, or said to have been met by way of ticking boxes. Product advice is provided on the basis of avoiding going into areas unlikely to yield product sales, an attitude of "what the customer doesn't know the customer won't miss."

Unsurprisingly, this adviser type has suffered the greatest damage by way of regulatory reviews with fines and compensation payments running into billions of pounds.

In February 2010 the FSA reported that it had fined RSM Tenon Financial Services Ltd £700,000 for significant failings in its advice and sales processes relating to Lehman-backed structured products and for having poor systems and controls to prevent unsuitable advice in its structured product and pension switching business.

In the same month the FSA again recorded that they had censured Park Row, a national IFA Network, for failing to ensure its sales were suitable and in addition secured between £5 million and £7.8 million in customer redress. They also imposed a fine of £49,000 on Park Row's Chief Executive.

In January 2011 the FSA announced that it had fined Barclays Bank plc £7.7 billion for investment advice failings and secured as much as £60 million in redress for its customers.

By 2014 the magnitude of the fines and provisions for compensation had risen substantially with an estimate of £23 billion alone being placed upon the total cost of Payment Protection Insurance mis-sales (Guardian Newspaper, 2014).

Small wonder that Amphibian types appear to be an endangered species.

In the light of the aforegoing, for Amphibian types to move into an area where they must leave behind their customary practices and seek the higher moral and ethical higher ground of the professionally qualified adviser, handling clients as opposed to customers, the practicalities may be equally fraught with danger. For an employer it would require the managing of a complete attitudinal change in their technician/advisers' cultures, whilst at the same time preparing them for the higher professional qualifications referred to below. Furthermore, it is suggested that they would need to embark upon a programme of recruiting graduates already familiar with financial planning routines through a system of work experience encountered during their undergraduate days (Morgan, 2000).

The time needed to do this would be substantial and time is money, which probably accounts for the major banks' decisions to withdraw from the sector, at least for the present (Abrego, 2014). Whether they will use that time as an opportunity to lobby regulators and legislators as discussed in Chapter 4 or attempt to move to the next level of advice provision remains to be seen.

The Level 3 type designated "Simian" is the most interesting in progression terms. It is the one that often contains practitioners with the highest professional qualifications, levels of experience and substantial academic achievement. Thereby it exhibits the greatest potential for future survival, because whilst still being wedded to commission-type remuneration, it is already charging some clients by way of a simple rule-of-thumb fee. Furthermore, its exponents exercise a utilitarian approach to ethics and do not preclude the application of alternatives which may be to their clients' greater advantage. Transition to the Level 4, Homo Sapiens type should, therefore, represent less of a challenge than for "Crocodiles" and "Amphibians."

Their weakness is that they can quite often be in a position where they provide professional advice without being remunerated by the client for the service and therefore have to rely upon unconnected product fees in an attempt to remain viable. This however, can only function as a strategy where remunerative activity is present and in times of economic decline, apparent or real, that is far less likely (Sayer, 2012). To avoid suffering from the opportunity costs of providing free advice the subliminal response must be to avoid work of this nature, thereby effectively providing the restricted service shown in the Service-Focus Quadrant for this provider type.

Nevertheless, they are in the best position to evolve into fully fee-based practices providing holistic financial planning and advice, a pathway illustrated in the Progression Table. It can do so, but as asked before, will it?

The What and the How

In Chapter 3.6 we managed to ascertain what it is that many clients of professional IFAs need, as opposed to the initial requests that first triggered that relationship. Throughout this work I have also discussed the ability of IFAs and intermediaries of many types to meet those needs. In the previous chapter the way in which each of the four identified types seeks to exist has also been discussed.

A recurring theme from many of the IFAs who have contributed to this research has been a desire to assist their clients to the best of their abilities. This was made particularly clear in Chapter 3.2 when considering the role of the IFA. Paradoxically they also expressed the frustration they experience as a result of their unwillingness or inability to take the steps necessary to provide a completely unbiased service across the broad spectrum of personal financial planning, whilst at the same time continuing to maintain a sustainably profitable business. Even if a solution is offered why, they ask themselves, abandon a practice which is working in the short term for something untried and untested, at least by them, and therefore not necessarily guaranteed to provide them with a living into the future. Furthermore, they might reason, do they have the skills and experience required to adopt such an alternative? This dilemma is played out in the Premium Bond test examined in Chapter 3.8.

There exists a common interest in that both the client and the adviser wish to be financially advantaged as a result of the relationship, so what is it that is missing from the mix that is preventing even some of the better qualified advisers from achieving their dual ambition of serving their clients and themselves to maximum advantage and effect?

In a knowledge-based sector the answer is often to be found in the form of a paucity of knowledge-based experience and its application, as opposed to simply a lack of information or data. For both the organisation and their clients not only is the development of knowledge acquisition important, but whether and how it is employed to the advantage of both. That is, within the simple model of input-process-output is knowledge displayed as a certificated trophy framed in atrophied triumph upon the walls of the business, or has it a dynamic existence, constantly being increased, developed, challenged and drawn upon as the inexhaustible well-spring that it should be (Leonard, 1995)?

There is also a natural reluctance on the part of the self-employed individual to sacrifice total control of his or her business by entering into partnerships with others who have complementary skills that would facilitate the development of a practice capable of delivering a much wider range of services through an enterprise of coordinated expertise.

Conversely, some of those very same self-employed advisers cheerfully sign up in droves to become part of an IFA Network, thereby sacrificing the very control of their businesses that they seek to protect.

Furthermore, in avoiding the creation of an organisation of complementary attributes such individuals, far from displaying attributes of the entrepreneurs that some style themselves, effectively lock themselves into the narrowness of the mental straitjacket of single-loop learning. It is the antithesis of the argument supporting the notion of knowledge synergy, where the product of the amalgamation of separate inputs is greater than their arithmetic sum. That this approach is more the norm than might be desired is borne out by the responses recorded in Chapter 3.1, when the function of a financial planning organisation was considered. Those that recognise that such small-minded small businesses cannot expect long-term survival must also acknowledge the need to reorganise on a larger scale, or suffer corporate demise (Davenport, 1998).

Such changes offer an improved organisational management and operational structure (Chapter 3.1) and the benefits of scale overcoming some of the barriers referred to in Chapter 3.5**.**

You cannot sell what you have not made or do not stock and in the case of a service organisation what you should have in stock is the appropriate knowledge and experience. A basic understanding of this fundamental truth should be part of any IFA's armoury and would be if they studied a suitably constructed course covering accounting and finance. If expertise is what the organisation is selling then a capability and structure for making that product needs to be in place.

So if the basis for charging a fee is already in place for some firms of financial advisers, what is it that continues to impede its application?

At the heart of the matter is the lack of understanding that there is a difference between a fee charged for the provision of the product and the payment for a fee and that is a result of the community of intermediaries believing in a vague sort of way that by including in their title the word "financial" they must know about the academic discipline called finance. If the reality was that they did then they would understand what lies between the two terms, fee charged and fee settlement.

A well-defined understanding of the discipline of accounting and finance would assist in bringing enlightenment to this issue of fees and settlement, whilst contributing to a deeper understanding of the principles of finance. Any course covering accounting and finance embraces a vast array of disciplines and subjects, so any attempt to engage with an in-depth experience of such a course needs to be tempered with an acknowledgement of the purpose of such an engagement and the aims it seeks to satisfy, namely to enhance the practice and experience of both adviser and client.

For a suitably constructed accounting and finance course to be of practical value it would have to aim to ensure that both adviser and client were to be better informed, but not necessarily with the same goals in mind. Certainly the Chartered Institute of Personnel and Development incorporate such a programme as a core module of their advanced (Level 7) qualification and for professional bodies deemed to be guiding the professional progress of financial advisers not providing such opportunities for their members seems to be something of a bizarre oversight.

To have a comprehensive grasp of the main financial planning areas a course should include aspects relating to the balance sheet, income statement, management accounting, gearing and finance and financial markets. From it both the adviser and the client would be empowered, although in different ways, to appreciate the validity of fees and how they were to be paid.

The value added for each party is described in the following sections. Firstly, however, the following Common Interest Matrix illustrates how the requirements of the clients can be met by the application of the adviser's added knowledge of various aspects of accounting and finance.

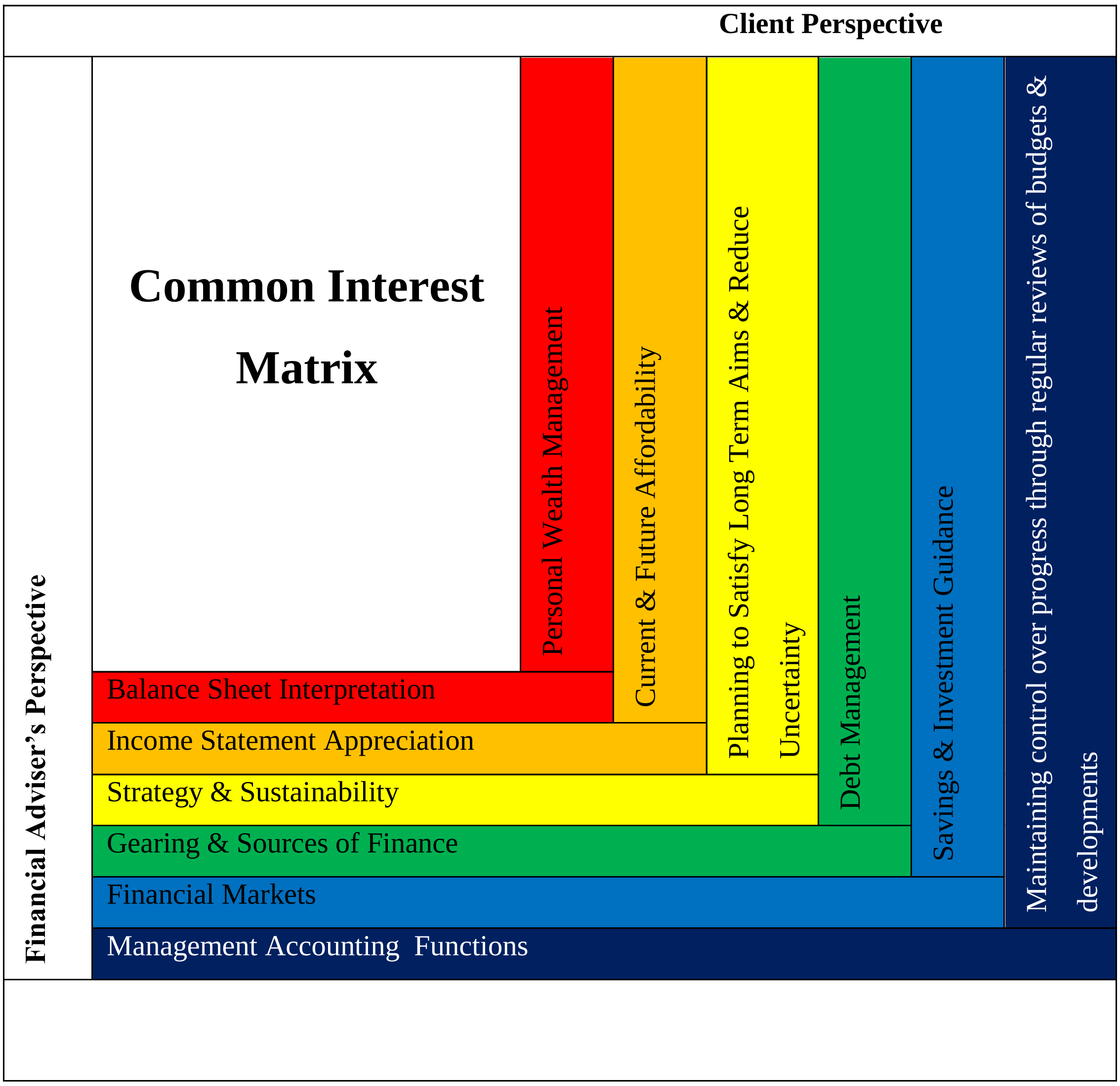


Figure 17 - Common Interest Matrix (Cawdell K E 2015)

The Relevance of the Balance Sheet

The ability to understand what information and from that, what knowledge is contained in the first of the Financial Accounting Statements is essential to providing a firm foundation for financial planning. Within this document lies the summarised list of the assets and liabilities of the organisation, separated between those of a long-term nature and those regarded as temporary. In addition it records the different types of capital employed in the operations, their sources and applications. For advisers involved in corporate financial planning the link with their role should be obvious, but may not be so clear with regard to those specialising in personal financial planning. However, the ability to identify as different the short term assets such as a current account from the normally long-term asset such as a pension plan is essential in determining what assets are available for immediate use and which are there for use long into the future. Similarly an awareness that a short-term liability such as a credit card bill must rely for immediate servicing upon the existence of a short-term asset is equally important where current affordability is being considered. Long-term liabilities such as a mortgage often contain a short-term element and if defaulted upon could lead to total financial collapse.

Furthermore for a business the existence of debtors valued at a figure which represents a high proportion of annual sales suggests that this form of short-term or current asset is increasingly unlikely to be available to meet the operating costs in the short term. Fees invoiced to clients fall within this category.

Organising that list of assets and liabilities into the form of a balance sheet offers all parties the opportunity for a greater understanding of the current financial position of the entity, be it corporate or personal and, therefore, the chance to reflect upon the possible need for changes in strategy if thought necessary. In essence it is one of the vital discussion documents to support the financial planning process, although whether the necessary discussion takes place depends upon whether the management accounting activities referred to below are employed.

For a business there are two main sources of long-term capital, namely equity provided by shareholders and loans provided by institutions such as retail banks, or in the case of large organisations corporate bonds. The former need never be repaid to the investor, whereas borrowings must so borrowing is accompanied by risk for the borrower and risk to the lender. The borrower must pay interest on the borrowing as agreed at the outset and repay the loan at the end of the contractual period. The lender runs the risk of the borrower not adhering to one or both of these conditions. The greater the ratio of borrowed capital to equity appearing in the balance sheet the greater the risk profile of the organisation.

If the adviser does not appreciate these fundamentals they will be unable to guide their clients according to those principles and planning and maintaining an investment framework consistent with the client’s own risk profile then becomes a matter of chance. So it is important, both from a business and personal financial planning stance to be able to assess how much capital or savings is placed with deposit holders, how much as equity and how much in the form of borrowings and importantly the identity of the borrower. (The latter could reveal that the borrower is the UK Treasury in the form of Premium bonds, or a little known company offering high rates of interest reflecting the riskiness of the loan.) (Redhead, 2003) What is important is that both adviser and advised are suitably informed so that they can act accordingly.

The Income Statement's Contribution to Understanding Current and Future Affordability

Income statement, Profit and Loss Account and/or Income and Expenditure Statement are all titles adopted to refer to the second Financial Accounting Statement. They describe what they do and the various names reflect the technical nuances of recording what has been spent and what has been received during a given period of time. The simplicity of this record suggests that it should be commonplace in the affairs of individuals as well as businesses. The reality is that most individuals and businesses rarely record their income and expenditure on a regular basis, being obliged to do so only when they find themselves at a financial crossroads which demands more information as part of a critical decision-making process. It follows that the majority of IFAs are similarly afflicted, as suggested in Chapter 3.3.

That is not to say that businesses do not keep Income Statements; if they are a limited company they are obliged to do so and even when unincorporated the need to submit supporting evidence of profits and tax payable to HM Revenue and Customs suggests that they will do so. However, such records are often historical with some of the data nearly two years old.

The purpose of maintaining current income and expenditure records is to ascertain continuing affordability and, by making modest adjustments to these records, short-term cash availability. In other words it is an important element in the planning and survival process and at a relatively advanced level of study provides useful measures of viability, a mainstay of this work from the perspective of the financial planning firm.

For the private individual most of the aforegoing applies and although it might be expected that keeping a note of incomings and outgoings was the norm experience teaches that the reverse is true and that this simple tool is ignored, sometimes with unfortunate results. An appropriately informed financial planner will be able to provide this record as part of the assessment and planning process and indeed should do so to protect the client. They will also be able to check the robustness of some of the data provided by clients insofar that they apply the simple formula A – B = C, where A is equal to income, B to expenditure and C should therefore be the net increase or decrease in cash assets. Where C does not result in the expected outcome the opportunity for an iterative conversation with the client is then offered, which in turn will better inform the planning process.

Strategy, Sustainability and Long-term Planning in the Financial Planning Sector

If an organisation claims to be in the business of providing plans for others to follow and it really believes in the value of this maxim it must have a plan of its own, because as concluded in Chapter 2 it is about ensuring the survival of the business, a precursor to success and ultimately the prospects for providing a comfortable retirement for all the parties to the relationship (Lusardi, 2007).

I have already emphasised the need for any organisation to understand its purpose. It follows that having decided upon that purpose understanding how it is to be achieved and maintained is paramount to its survival. To do so requires the setting of goals and the identification of the routes to be followed to fulfil those goals (Locke, 2002). Strategy is the pattern of activities undertaken by an organisation or individual in the pursuit of its (their) long-term objectives and it is this long term element that sets it apart from the tactical or operational activities which are performed (McDonald, 1996). Indeed operational activities should be set in place with the aim of being in concert and as part of the fulfilment of the determined strategy (Stacey, 2007).

So it was alarming to observe, in Chapter 3.1 that not one contributor recognised that a prime requirement for any organisation wishing to survive in the long term is the need to develop a strategic plan. Indeed mention of its short-term planning cousin, the budget was also absent so the requirement to collect together any idea of the costs of running the business was also missing.

When an IFA is approached by a potential client that client's needs will include consideration of longer-term issues. These needs may include areas such as retirement income requirements and long-term care costs in addition to any wants that they may have, perhaps in the form of a mortgage, or investment, or an affordability dilemma. These are strategic issues requiring the sustained support of the adviser, so it is important for the client that the adviser remains in business over the longer term to work alongside them, a clearly common interest.

If the main reason that a business ultimately fails is that it runs out of money then ensuring that sufficient money will continue to flow into the business over the longer term will safeguard its interests and those of its clients (Balcaen, 2006). Clients who are prepared to recognise this and its relevance to themselves and are willing to pay for a sustaining and sustainable service will be the bedrock of financial viability for themselves and the business, by virtue of the fashioning of a virtuous and ethical circle.

Gearing, Sources of Finance and Debt Management

For decades financial advisers and brokers funded their businesses on the basis of indemnity commission, an approach which worked quite well in positive economic periods, but, as observed in Chapter 3.4, invariably drove mis-selling and eventual terminal decline as sales opportunities reduced in the less attractive environment of a recession. For any business a fundamental resource is capital, which will provide the means to acquire necessary equipment and funds for day-to-day operations. How that capital is employed is learned when considering the balance sheet, referred to above, but how it is to be acquired precedes that decision. As stated earlier, for businesses there are two main general methods, namely borrowing or equity (Modigliani, 1958) (Berger, 1998). A fundamental rule of gearing, that is the proportion of borrowing to total capital employed, is that the higher the proportion of long-term capital provision that is provided by borrowing, as opposed to equity, the more exposed the business becomes to financial risk. Failure to recognise this maxim has often led to financial ruin for many brokers and advisers in the past (Bates, 1990).

At a personal level understanding the effect that a borrowing can have upon personal finances and whether deferring a capital acquisition, or taking a short term or long term loan is a better option is critical in the determination of future financial stability (Hilgert, 2003).

In both a business and non-business sense the same holds true, that the greater the reliance upon borrowing the greater the risk is to financial stability over the longer term, sometimes even where the borrowing is nominally short-term as in the case of a credit card.

For a financial adviser there is a need to understand that any intended borrowing is assessed on the basis of the validity of the proposed capital acquisition in terms of adding value, however that is assessed. The ability to do this is not something which is learned by experience in the field, but by genuine academic study which can then be employed to the business's and the clients' advantages. It is also a competence whose provision should be subject to a fee.

Understanding Financial Markets and their relevance to Investments and Savings

IFAs are not stock pickers; they are not qualified to undertake such work and as such should not attempt to do so. That is the preserve of stockbrokers and fund managers who are paid by way of a percentage of the fund or funds they are overseeing and for which the bulk of private investors already pay by way of an annual management charge on their collective investments (AMC.) That is not to say that IFAs should not have any role in the selection and choice of appropriate funds in which their clients place some of their savings with a with a view to enhancing the return on their savings.

For a client their main concerns are risk level and accessibility, perhaps best summed up as wishing to achieve the highest return on their investments without any exposure whatsoever to the possibility of loss or illiquidity, for we are all risk averse whilst also displaying aspirational characteristics (Markowitz, 1991). The IFAs role is to ensure that investment portfolios reflect their client's risk attitude and accessibility requirements, consistent with current and probable future needs (Sharpe, 1964).

In this role an IFA needs to have a firm understanding of how the financial markets work as opposed to working in the financial markets. They need to acknowledge that financial planning is a process extending over the medium to long-term and that the important issue is one of trends, not the short term trading methods of the bourses.

An amateur trader is one that buys at the top, sells at the bottom and continues to repeat the process until their money runs out, according to a joke which circulates amongst the stockbroking community (Tilson, 2005). It is this characteristic, the temptation and panic approach, which the IFA is required to temper in the client, but to do so they need to be able to explain the rationale behind their guidance and to do this they need to have a real understanding of the markets supporting the investment funds and vehicles they are recommending as being suitable to their clients' needs. Again such advice should be provided by way of a fee, which, if the guidance assists the process of adding value the clients should be happy to pay.

Functions and Aims of Management Accounting in the Financial Planning and Control Process

In management accounting the fundamental question is, "what will it cost?" It is a simple enough question, but in the course of my research and particularly in discussions on the desirability of cost-based fees in Chapter 3.3, I was repeatedly informed by IFAs that they had little or no idea of the cost of providing their service to their individual clients. Yet the information and data to respond to the question is already within their records, with some certainly held within the latest Balance Sheet and Income Statement and their underlying source documents.

The financial accounting process is rooted in the concept of recording what has happened in the past. Management accounting, or what was originally called costs and works accounting (Chapter 4), is about planning for the future and then comparing the planned future with the reality as it unfolds. Contrary to the popular argument that it is not possible to predict the future, doing so is comparatively straightforward, relying as it does upon past records for guidance and an assessment of possible changes within the political, economic, social and technological environments. The difficulty is not the process of prediction, but attaining a level of accuracy which provides the enquirer with the confidence to plan ahead (Neely, et al 2003).

For a business entity the process involves creating a budget that assesses the resources required and their availability and what they are likely to cost, if available. The intention is that having assessed total costs including regulatory costs a full costing system can be employed to ensure that these are contained in the pricing mechanism for services. One of those resources will be cash, so a cash flow forecast is also vital. Another will be capital equipment and in a knowledge-based community acquiring employees of the right calibre and mix will also need to be included (Atrill, 2006).

Whilst there are many expensive software packages being sold to advisers on the basis of providing cash flow forecasting for clients at the press of a button, these are unhelpful and indeed could be dangerous in the hands of those whose ability to understand the data source and unable to interpret the data outcome is fragmentary or completely absent. It is the Identikit approach described by an IFA contributor (IFA2) in Chapter 3.2. Where that experience is rounded an inexpensive Excel spreadsheet will provide the solid foundation for providing the possible trends expected over the longer term.

Any business needs to ensure that it has control over its activities and is in a position to respond to performances which were not part of the original plan. Comparing actual outcomes with planned outcomes is vital as any variance from the plan impacts upon both future profitability and cash requirements. Regular comparison ensures that the causes of such variances can be assessed and addressed in a timely manner, a revised plan completed and a clear idea of future based upon the amendments plotted. For clients this translates into regular planning reviews, consistent with their needs, changes in personal circumstances and the actual or expected changes in the wider environment; a general election in the next few months could be an example of this and the relentless nibbling away at long-term care is another .

Interestingly, regular reviews was the most desired service highlighted in our own survey and this is supported by the NMG survey undertaken for the FCA (NMG Research, 2015)

However, knowing the limitations of any data processing techniques, and indeed the weaknesses inherent in any forecasting process, is key to enhancing the advice and planning process and emphasises the need for the appropriate level of training and development of any financial adviser and planner (Archer, 1987). Having said that, such enhanced knowledge will lead to the provision of advice and guidance for the client, suitably supported with caveats regarding probability and possibility and highlighting in advance any issues that should be given early attention (Armstrong, 2001) (Baudrit, 2007).

For a client reducing uncertainty is one of the main mechanisms for satisfying their needs and their confidence in their adviser grows as the passing of the years demonstrates that the adviser is competent in the techniques of financial planning and capable of responding to changing circumstances (Berger, 1975).

For the adviser understanding this enables the provision of a well-costed product, namely advice, to a demanding consumer at a price that both can recognise and agree as being transparent, fair and sustainable.

Chapter 6 - From Broker to Adviser - Conclusions and Recommendations

Summary of Main Themes Discussed in this Chapter

- An Evaluation of the Identified Strategies
- Opportunities for Development and Progression
- Charging structures
- The Intermediary Role
- Integrity

Introduction

Before commencing the process of considering the outcomes of this research programme it would be useful to reflect upon and consider the pathways followed towards the results and the nature of the classifications employed as part of the process of determination.

All organisations have a strategy, be it planned or emergent, strategy being defined as a pattern of activities undertaken by an organisation in pursuit of its long-term purposes (Cassells 2002). In the financial services sector that strategy is underpinned by the employment of knowledge-based resources. However, no organisation or individual has perfect knowledge and the husbanding of those resources and how they are applied can affect the ability to achieve such purposes, be they specific or simply as vague as seeking to survive. To provide a basis to judge the value of the strategies being followed I have re-contextualised in terms of the financial services sector the Johnson & Scholes' evaluative suitability, feasibility and acceptability approach (Exploring strategy: text & cases 2011).

The pathway to reaching this evaluative stage, as illustrated in Fig 18 at the end of this introduction, commenced with employing the data generated from the application of the Applied Thematic Analysis (ATA) framework. This framework served to determine significant themes that arose from the face-to-face interviews that had been held with a range of contributors working in the financial services sector. Table 11 below is an extracted example from the ATA codebook constructed to identify recurring themes that emerged.

This particular extract identifies the prevalent themes and sub-themes emerging during the semi-structured interviews with IFA's on the topic covering the Purposes of a Financial Planning Organisation.

The codebook also provided the source for the creation of the Figures placed at the beginning of each of the chapters covering a detailed analysis of the discussion topics (Section 3).

Themes Identified from Transcripts of Conversations with IFAs								
Themes and Sources		Emerging Sub-themes						
Discussion Topic Source	**Theme**	**Morals**	**Ethics**	**Remuneration**	**Existence**	**Development**	**Survival**
Purposes of a FP Organisation	Making a profit	x	x	x	x	x	x
Purposes of a FP Organisation	Training of employees			x		x	x
Purposes of a FP Organisation	Regulatory oversight				x		x
Purposes of a FP Organisation	Interface between providers, advisers & other stakeholders				x		
Purposes of a FP Organisation	Not product driven	x	x	x	x	x	x
Purposes of a FP Organisation	RDR				x	x	x
Purposes of a FP Organisation	Providing structure to the adviser process				x	x	x
Purposes of a FP Organisation	Consistency of process		x		x	x	x
Purposes of a FP Organisation	To consider cost base for the provision of advice			x			
Purposes of a FP Organisation	Scale					x	
Purposes of a FP Organisation	To consider the ethical implications of S/E advisers within a FP org	x	x				
Purposes of a FP Organisation	Creating a framework for long-term relationships with clients				x	x	
Purposes of a FP Organisation	Providing structure				x	x	

Table 11 - Extract from Code Book

My Table of Identified Client Financial Planning Needs (Table 7) extracted from our firm's client file records has been employed to provide an additional consumer perspective, given that conversations and other forms of enquiry with consumers failed to yield any discernible trend or themes. Together with this table the themes in the codebook were channelled through the Marketing Mix Comparison Table, which in turn informed the Broker to Adviser Progression Table and the segmentation of the two generic types, broker/intermediary and adviser, and four organisational types.

The benchmarks provided in the Marketing Mix Comparison (Table 15), are my synthesis of Borden's original work on the Four P's of Marketing (The Concept of the Marketing Mix 1964) and Lautenborn's later work (New Marketing Litany: 4 P's Passé; C-words take over – 1990) but in a financial services setting.

Conformity or non-conformity with those benchmarks has been used to measure whether the pathways actually being followed are consistent with the legislative and commercial requirements within which the two generic organisational types operate; that is are these strategies likely to lead towards success or failure .

The Service-Focus Quadrant

		Consumer Espoused Requirement	
		Restricted Wants	Unrestricted Wants
Adviser/Intermediary Service	Financial Products Agency Supplier	*Crocodile Type* Limited Product Range Commission based sales model not requiring advice	*Amphibian Type* Broad Product Range Wider product range offered with some advice
	Financial Advice Primary Supplier	*Simian Type* Financial products and associated advice Tendency to link advice to Adviser-charge producing financial products	*Homo Sapiens Type* Holistic financial planning advice Standalone fees based upon service provision cost.

I created the archetypal Service-Focus Quadrant model (Fig 16), repeated above, to differentiate between the various complex dynamics operating in the financial services advice/broking sector in a simplified form with a view to stimulating further discussion and to assisting that aim with provision of a simplified platform.

This determines that the first of these two generic types is defined as Advisers, sub-divided into organisational types referred to in this work as Amphibians, Simians and Homo Sapiens, and as the name suggests the legal requirement is that they provide their consumers with appropriate advice when discussing the provision of financial products and/or guidance. The second generic type is the Broker/Intermediary, designated in this work as the Crocodile, for whom the exact opposite ruling on advice applies; they must not give any. Full definitions of each organisational type and their characteristics are provided in pages 155-167, supported by the Organisational Purpose Table (Table 16) and the section on Opportunities for Development and Progression commencing on page 210.

I developed my Strategic Differentiation Model (Figure 19) to uncover the drivers for the Strategies Identified as being present in the financial services sector, namely the consumer relationship, organisational structure and consumer charging basis. These in turn help to inform the composition of the tables of “Factors Necessary” for the purpose of assessing the Suitability, Feasibility and Acceptability of those strategies when viewed in the context of the desirability of them being present to attain the achievement of satisfactory outcomes for both the organisations and their consumers (Tables 12, 13, and 14).

The following table absorbed the results contained in the codebook and Table of Identified Client Financial Planning Needs as they related to the suitability of the Identified Strategies contained in the Strategic Differentiation Model. These necessary factors were then compared with which of those factors were judged to be employed by the various adviser/intermediary types, as identified by the Service-Focus Quadrant and recorded in the Broker to Adviser Progression Table (Table 10).

By way of illustration, the codebook extract above, which considered themes arising during the discussions relating to the purpose of a financial planning organisation, noted that “Training of Employees” and “Regulatory oversight” signalled the need for the inclusion of those factors as a basis for determining the suitability, or otherwise, of the strategies being followed. In the table below these are incorporated into the Suitability Factor “Overseeing robust training programmes,” Suitability Item Number 2, or S2.

Table 12 – Factors Necessary to the Suitability of Identified Strategies

Feature being Assessed	Suitability (S) Factors	Sources
Organisational purpose as an intermediary or advice provider	S1. Setting of organisational culture	Chapter 3.1, pp 48 - 60 Figure 6, p50
	S2. Overseeing robust training programmes	
	S3. Financial oversight	
	S4. Market orientation towards consumer	
The role of the financial adviser/intermediary	S5. Fulfilling a duty to the consumer	Chapter 3.2, pp 61-71 Figure 7, p62
	S6. Serving the organisation's purpose	
	S7. Maintaining suitable levels of competence	Chapter 3.5, pp 93-106 Figure 10, p94 Chapter 3.6, pp 107- 122 Figure 11, p109
Characteristics of the costs to consumers	S8. Related to costs & activities &/or performance.	Chapter 3.3, pp 72 - 83 Figure 8, p73 Chapter 3.4, pp 84 - 92 Figure 9, p85
	S9. Bad debts management	
	S10. Transparent charges	
	S11. Not reliant upon the sale of certain financial products.	
The role of experience, education & qualifications	S12. Enhances business structure and management	Chapter 3.6, pp 107- 122 Figure 11, p 109
	S13. Competence fitness	
	S14. Positive links to charging structures	
The range of products and/or services offered	S15. Full range of financial products, guidance and planning can be provided	Chapter 3.7, pp 123 - 132 Figure 12, p 124 Chapter 3.6, pp 107- 122 Table 7, p 119
The influence of integrity on the shaping of the advice and planning process	S16. Avoids conflicts of interest	Chapter 3.8, pp 133 - 151 Figure 14, p 135
	S17. Avoids deceptive description of firm's service	
	S18. Potential for long-term relationship development	

These Necessary Suitability Factors were organised into a table which separated what was necessary for intermediaries who were barred from offering advice and the other generic group describing themselves as financial advisers and consequently required to offer advice, as shown in Table 17.

The factors were then set down in a table of comparison, delineated by organisational type (Crocodile, Simian, etc) which considered which of the necessary suitability factors was apparent in the identified strategies of each (Table 19). The outcomes of these comparisons were presented firstly in tabular form, (Table 20), then in graphic form on a scale of 0 – 5, (Table 21)

The procedure followed in assessing the suitability of the identified strategies was repeated to assess the feasibility of those strategies and whilst an extract from the relevant section of the codebook is not included in this reprise it played just as important a part in the process as the example provided for the suitability assessment indicated.

The table of factors necessary to the feasibility of the identified strategies is shown below, with the relevant chapter, figure and table references included for ease of clarity.

Table 13 – Factors Necessary to the Feasibility of the Identified Strategies

Feature being Assessed	Feasibility (F) Factors	Source of Factor
Organisational purpose as an intermediary or advice provider	F1. Structure capable of delivery to purpose.	Chapter 3.1, pp 48 – 60 Figure 6, p 50
	F2. Capable of identifying anticipating & satisfying consumer needs profitably	
The role of the financial adviser/intermediary	F3. Range of competences sufficient to fulfil purposes	Chapter 3.5, pp 93 - 106 Figure 10, p 94
Characteristics of the costs to consumers	F4. Debtor invoicing & control systems in place	Chapter 3.3 (Page 80) & Chapter 4 (Page 166)
	F5. Uncomplicated utility of chosen method	Chapter 3.3, pp 72 - 83 Figure 9, p 85
	F6. Competences available to provide a fee-based service	Chapter 3.5 pp 93 - 106 Figure 10, p 94 and Chapter 4, p 165
	F7. Not subject to clawback of commission/adviser charge	Chapter 3.2, pp 61 - 71 Figure 8, p73 Chapter 3.3, pp 72 - 83 Figure 9, p 85
The role of experience, education & qualifications	F8. Sufficiency to support the spectrum of products & services offered	Chapter 3.6, pp 107 - 122 & Figure 11, p 109
	F9. Capable of supporting SWOT contextual understanding	
The range of products and/or services offered	F10. Few financial constraints dictating range limits in respect of product/advice sourcing	Chapter 3.7, pp 123 - 132 & Figure 12, p 124
The influence of integrity on the shaping of the advice and planning process	F11. Motivated by a desire to serve the consumer, not by a sales target	Chapter 3.8 , pp 133 -151 Figure 14, p135 compared with Chapter 3.3, pp 72-83 and Figure 9, p 85

The table of factors necessary for the acceptability of the identified strategies is shown below, again with the relevant chapter, figure and table references included for ease of clarity.

Table 14 - Factors Necessary to Acceptability of Identified Strategies

Feature being Assessed	Acceptability (A) Factors	Sources
Organisational purpose as an intermediary or advice provider	A1. Builds long-term sustainable & reliable relationships	Chapter 3.2, pp 61-71 Figure 7, p 62
The role of the financial adviser/intermediary	A2. Can meet current & future requirements of consumers & regulators.	Chapter 3.5, pp 93-106 Figure 10, p 94
	A3. Delivers improved financial understanding	Chapter 3.2, pp 61-71 Figure 7, p 62
Characteristics of the costs to consumers	A4. Charges regularly invoiced to consumers	Chapter 3.3, pp 72-83 Figure 8, p 73
	A5. Compliant charges	
	A6. Capable of assisting business continuity	Chapter 3.7, pp 123-132 Figure 13, p 126
The role of experience, education & qualifications	A7. Increased financial well-being & reduced uncertainty	Chapter 3.6, pp 107-122 Figure 11, p109
The range of products and/or services offered	A8. Range offered contains the ability to satisfy consumer needs, not simply their wants	Chapter 3.6, pp 107-122 Table 7, p62
The influence of integrity on the shaping of the advice and planning process	A9. Do internal practices go beyond satisfying professional bodies' rules on ethics?	Chapter 3.8, pp 133-151 Figure 14, p135

The test for whether or not there exists apparent conformity or non-conformity with the requirement to operate a firm using these necessary factors relies upon a process of observations made by contributors in the semi-structured interviews, the analysis of consumer needs and observations referred to in the literature review.

As an example, in adopting their strategy of growth and income the banks are judged, in the Overall Evaluation of Identified Strategies, to have fallen short on grounds of the suitability of their strategy, even shorter on its feasibility and to have failed entirely in terms of acceptability (Table 32)

There is overwhelming evidence contained in current literature, both in terms of media reports and academic papers, to support the view that many banks, the Amphibians, did not observe the need to provide suitable financial products or give appropriate advice, but concentrated upon the themed selling of products to meet specific sales targets, regardless of their customers actual needs. The outcome has been the imposition of massive fines by regulators and mounting compensation payments that run into billions of pounds.

There is also evidence of an inability to provide a broad range of suitable advice above and beyond that required for the selling of financial products, because the knowledge base is limited in the main to Level 4 testing and a reliance upon a sales training philosophy (Chapter 3.6 pp 107-122) Theodore Levitt's observation that "you should make what you can sell, not attempt to sell what you can make" in the context of financial advisers and planners reflects upon the inability of many in the sector being able to charge professional fees because they do not have the knowledge resource to underpin the charging of that fee (p 165). This is one of the underlying causes for the feasibility aspect of the strategies of all generic types being identified as being generally weaker (Table 32).

The comparative figures offer the opportunity for the reader to contrast this author's view of what is necessary for the consummation of a successful strategy with what has been observed as being present in the operations of the various types of organisation.

The final judgements on the efficacy of the identified strategies employed by the different types of adviser and intermediaries are collated in Table 32 and Table 33.

The graphical synopsis of the underpinning pathway towards reaching these judgements is shown below and should assist the reader when considering the more detailed reflections contained within the remainder of this chapter.

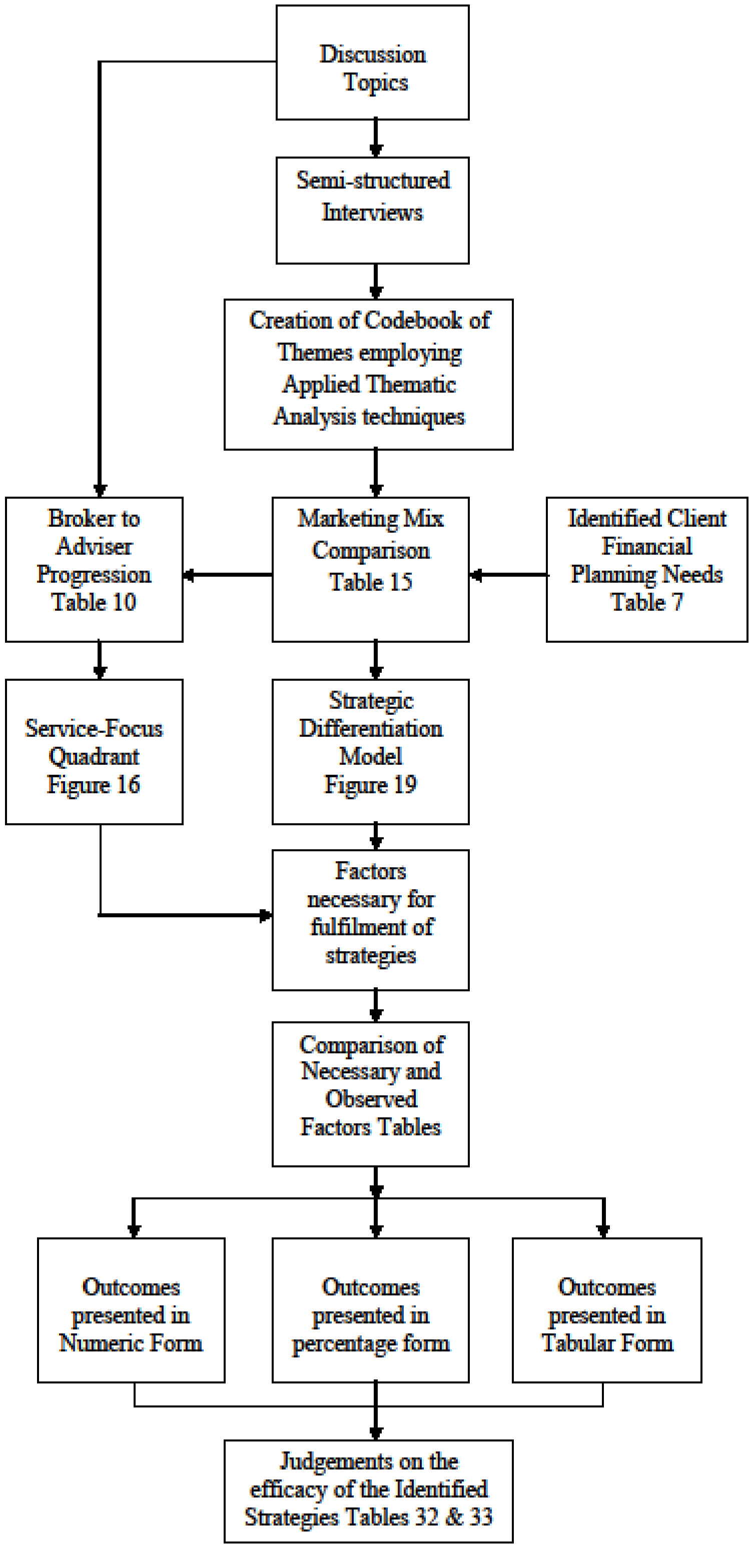


Figure 18 – Pathways to Judgements on the Efficacy of Strategies Employed

The title of my project is intended to convey the message "how to earn a compliant living now and in the future"

As part of this exploration I have employed techniques of semi-structured interviews with IFAs, consumers and product provider representatives covering a range of topics (See Table 1). These included the existence or absence of organisational structure within the intermediary sector, the role of the adviser, commissions and fees, barriers to the continued existence and development of the IFA, experience, education and qualifications and integrity. Recurrent themes were logged and analysed and note taken of any persistent avoidance of providing a response.

A constant theme was that to succeed it was necessary to address the needs of consumers, perhaps a statement of the blindingly obvious. This generates a requirement to identify what those needs are, an activity which might also be described in the same way (See Table 7). So if the objective is so clear what is it that could impede or aid its consummation?

At the beginning of this work I argued that we are all agents acting on behalf of others, be it familial, societal or corporate and that when acting as an agent there is always the temptation to act more in one's own interest than in the interest of the principal (Bosse, 2014). Furthermore, I suggested that if we could provide all of our needs by our own hand in a way that was less costly than inviting others to provide them for us we would do so. The reality is that in a modern world the option of being totally self-sufficient does not exist; indeed it is the complexity of agency arrangements that underpins the functioning of the modern world.

In what way can the IFA sector fulfil and continue to fulfil a role of agent by meeting the needs of its principals, whilst at the same time maintaining a focus upon its own survival and success?

It has been argued that in many areas of business intermediaries have become more important than they have ever been in the past (Mukti Khaire cited in The Economist Schumpeter column 18/10/2014). Consumers, far from becoming better informed by the emergence of the Internet, are now more confused and bewildered by the overwhelming wealth of data and information that it offers, suggesting that the need for trustworthy professional guides is increasing. That the need for an old-fashioned product salesman in the financial services sector is declining should not be a surprise, but the ability to supply a suitable alternative at a pace consistent with the needs of both suppliers and consumers is the main barrier to its consummation.

Note, it is the dearth of ability underpinned by more than a little confidence, not simply a lack of will, that is the barrier, at least on the part of the adviser community. Product selling appears to be the default position for suppliers, not unnaturally, and rather more surprisingly the existing professional bodies. The latter should be the main source of assistance and support in facilitating the enhancement of ability, both through the provision of a regime of education and examination fit for purpose and by developing a recruitment programme that encourages suitably academically qualified graduates to join the sector.

However, all of this depends upon three things, mapped out in The Strategic Differentiation Model below: how is the consumer principal perceived by the IFA, what is the organisational structure, if it exists at all and how does the consumer pay for the service?

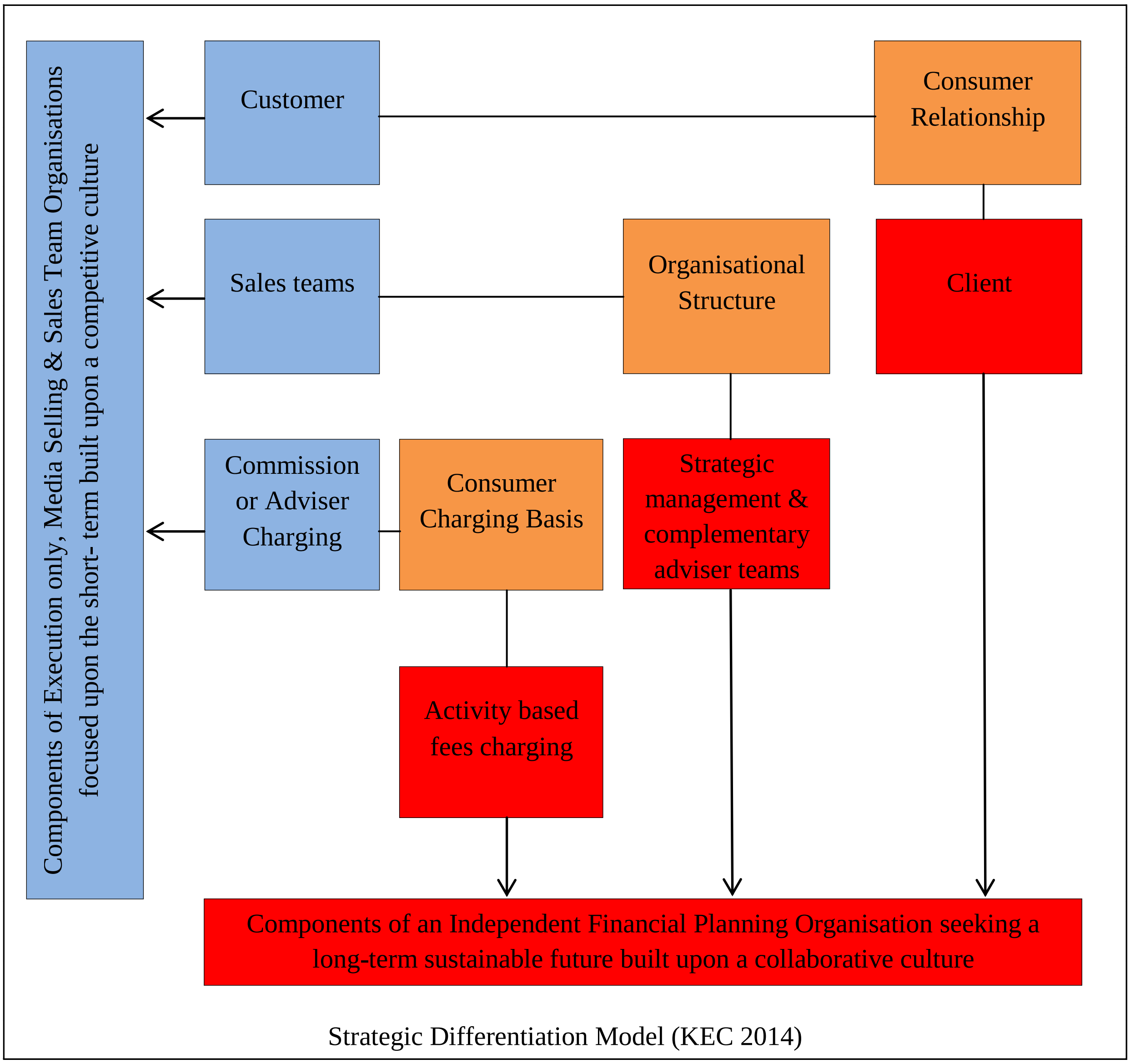


Figure 19 - Strategic Differentiation Model (Cawdell K E 2015)

This model not only emphasises a difference in attitudes and cultures regarding the treatment of consumers, but also identifies whether such attitudes embody short-term or long-term plans. Put another way, do the separate approaches reflect the existence of a set of tactics concentrated upon short-term aims, or an operational plan that forms part of a planned strategy, which in turn is a component part of achieving the organisation's goals and purpose?

If the latter then are the chosen strategies likely to be successful in achieving those goals, but if the former how helpful are what are effectively emergent strategies likely to be in the longer term?

An Evaluation of the Identified Strategies

Any organisation's strategies can and should be tested and evaluated. In Chapter 2 I referred to methods developed for the testing and evaluating of strategies and in particular that of Johnson and Scholes who advocated examining them on the basis of their suitability, feasibility and acceptability (Johnson, et al 2011), but suitable, feasible and acceptable to whom?

The Strategic Differentiation Model, shown on the previous page employs the Four P's Marketing Mix model to demonstrate the paths followed in selecting particular forms of consumer partnerships, organisational structure and consumer charging. The suitability, feasibility and acceptability of these adopted pathways are assessed using the following definitions:

- Suitability asks whether the strategy employed by the organisation makes sense for the organisation in terms of addressing external opportunities and threats, whilst capitalising on its strengths and avoiding weaknesses

- Feasibility considers whether the organisation has the necessary resources and competences, which includes its financial strength, technical and managerial skills

- Acceptability is concerned with the desired performance outcomes from the perspective of a range of stakeholders, including the organisation.

Viewing the provision and acquisition of a service or product from the perspective of the marketer and also from that of the consumer highlights the conceptual differences in attitudes. For the transactions to take place at a commercially successful level the consumers' perceptions of the product or service have to be addressed and maintained; a failure to do so will suggest that the organisation's future is in jeopardy and that the strategy being followed is flawed. A re-contextualised Table 4 Comparative Marketing Mix Attributes, from Chapter 2, page 38 is shown overleaf as a basis for undertaking this strategic assessment process following my synthesising of the two original concepts of Borden and Lautenborn.

Borden's 4 P's Product–centred Concept		Lautenborn's 4 C's Consumer-oriented Concepts	
1	**Product** – The provision of a financial product, advice or a combination of the two consistent with the organisation's purpose	1	**Client's needs, wants and expectations** A service embracing savings, protection & financial planning guidance
2	**Price** – Is the basis for setting it logical & viable from the organisation's perspective? Is it transparent	2	**Cost/benefit** advantages Equitable and acceptable payment structure
3	**Promotion** means the promotions mix or the communications mix. This mix includes advertising, sales promotions, publicity, direct mail, exhibitions, display, packaging, selling and even word-of-mouth.	3	**Communicating** the benefits to consumers in the context of the satisfaction of their needs and value added, both current and evolving.
4	**Place** – methods employed to interface with the consumer	4	**Convenience** of the delivery of the product or service and whether this will enhance the client's experience through the continuing availability and regularity of support and advice provided beyond the initial contact
Comparison of Attributes of the 4P's and 4C's Approach to the Marketing Mix in the Context of Financial Advice and Planning (Cawdell K E 2015) *With acknowledgements to the work of Kotler P et al (1999)*			

Table 15 - The Marketing Mix Comparatives in the Context of Financial Advice and Planning Sectors

The Four C's shown in Table 15 provide guidance on what should be included as Acceptability Factors from a consumer perspective. The Four P's analysis offers an insight from an organisational angle, both in terms of process and feasibility.

The determination of Consumer Charging Factors is driven by two main forces, the first of which is the regulatory requirement that fees be transparent and representative of a service provided and that a commission, except in specific situations, cannot be paid. The second relates to the management systems needed to ensure that the fees charged reflect the costs of the service provided and that clients settle their accounts in such a way as to maintain a robust cash inflow to the organisation.

In the following assessments I have taken into account the feasibility, suitability and acceptability of the product or service offered compared with the consumer's needs, the price of the product or service with the cost/benefit to the consumer and the adviser/broker, the promotion methods employed and whether they communicate to the consumer an understanding of how the product or service meets their needs and finally, whether the method of provision by the adviser/broker is consistent with enhancing the consumer's service experience both at the initial stage and beyond.

Such evaluations are by their very nature subjective and can at best only give a general evaluation of an identified strategy's worth; they are unlikely to provide a precise answer. Nevertheless, employing such an assessment will aid the determination of whether an organisation's current and future plans have the potential to result in its further development, demise or stagnation.

To commence the evaluative process the organisation's purpose must be defined, so that a foundation is laid to answer the question, is the strategy fit for purpose? Table 16 below provides definitions for each type of organisation.

Organisation Type	**Purpose**
Crocodile	To act as a broker in the provision of financial products
Amphibian	The successful sale of financial products
Simian	The successful sale of financial products appropriate to consumers' needs
Homo Sapiens	To provide holistic financial planning advice and support appropriate to consumers' needs

Table 16 Organisational Purpose

The type and total number of factors deemed necessary for the achievement of a successful strategy, consistent with purpose and consumer satisfaction and compliance are shown in Tables 12, 13 and 14. The summary of those required factors, for each element in the Strategic Differentiation Model together with a summary of those observed as being present, is provided as part of the evaluations that follow. To what extent account is taken of each factor in terms of its relevance is a matter of subjective interpretation by the assessor, in this case mine. Nevertheless, these factors represent a coordination of best practice required both from a general business management perspective and that of the financial services sector's consumers and regulators.

The evaluative process begins with an assessment of the Consumer Relationship Strategies employed using an analysis of the number of factors deemed necessary for each type of broker/adviser to succeed in the aim and comparing those with the number of factors observed as being present. The links between Factors Necessary, Factors Observed, the Tabular and Graphical Comparison Analyses are colour coded to assist following the pathways.

Table 17 - Factors Necessary to Underpin Good Consumer Relationships					
Deemed to be Required by Crocodiles (Execution only Brokers)			Deemed to be Required by Financial Advisers		
Suitability	Feasibility	Acceptability	Suitability	Feasibility	Acceptability
S1	F2	A8	S1	F2	A1
S4	F7		S4	F7	A2
S5	F8		S5	F8	A3
S13	F10		S7	F10	A7
S16			S10		A9
S17			S11		A10
			S13		
			S15		
			S16		
			S17		
			S18		
Total = 6	Total = 4	Total = 1	Total = 11	Total = 4	Total = 6

Table 18 records which of the factors identified above appear to be present in the operations of the Execution Only Crocodiles and different types of financial advisers. This is followed by a table of comparisons (19) of which of the Necessary factors recorded in Table 17 are present in Table 18.

This pattern is repeated for the assessments of Organisation Structures and Consumer Charging.

Table 18 - Factors Observed as being present in the maintenance of Consumer Relationships											
Crocodiles			Amphibians			Simians			Homo Sapiens		
S1	F2	A8	S6			S1	F2	A1	S1	F2	A1
S4	F10		S10			S4	F7	A2	S4	F7	A2
S5						S5	F10	A3	S5	F8	A3
S13						S6		A7	S7	F10	A7
S16						S7		A9	S10		A9
S17						S10			S11		A10
						S11			S13		
						S18			S15		
									S16		
									S17		
									S18		

Table 19 - Comparison of Necessary & Observed Factors in Consumer Relationships

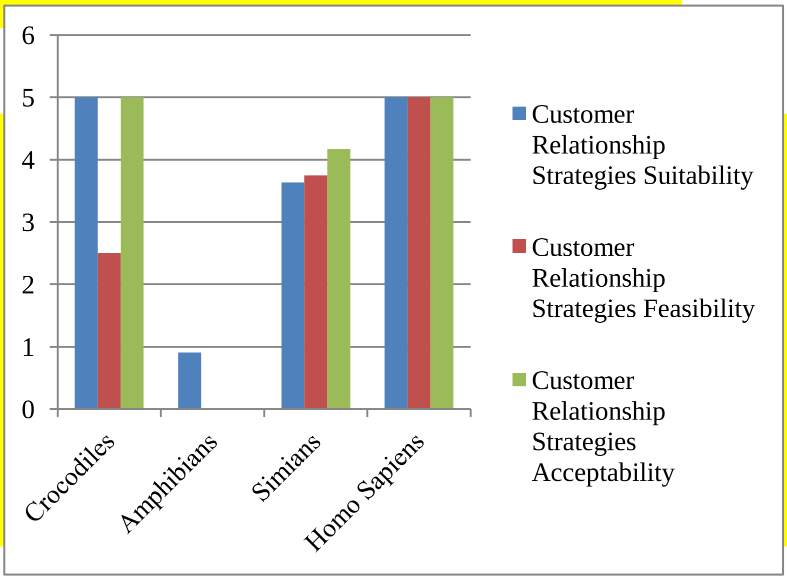
	Crocodile Suitability	Crocodile Feasibility	Crocodile Acceptability	Amphibians Suitability	Amphibian Feasibility	Amphibian Acceptability	Simians Suitability	Simian Feasibility	Simian Acceptability	Homo Sapiens Suitability	Homo Sapiens Feasibility	Homo Sapiens Acceptability
Necessary factors	6	4	1	11	4	6	11	4	6	11	4	6
Observed factors	6	2	1	2	0	0	8	3	5	11	4	6
% observed	100%	50%	100%	18%	0%	0%	73%	75%	83%	100%	100%	100%
5 scale	5	2.5	5	0.9	0.0	0.0	3.6	3.8	4.2	5.0	5.0	5.0

The following two tables summarise these determinations in tabular and graphical form.

Table 20 - Rating of Consumer Relationship Strategies in Tabular Form

Customer Relationship Strategies				
	Suitability	Feasibility	Acceptability	Totals
Crocodiles	5.0	2.5	5.0	12.5
Amphibians	0.9	0.0	0.0	0.9
Simians	3.6	3.8	4.2	11.6
Homo Sapiens	5.0	5.0	5.0	15.0

Table 21 - Rating of Consumer Relationship Strategies in Graphical Form



During the course of my research it has become clear that how the consumer is seen by the intermediary or adviser is a driver with regard to how that consumer can expect to be treated. How that consumer wishes to be treated should also be reflected in the providing organisation's plans and strategies; a mismatch is unlikely to lead towards a long-term success for the business.

In this respect the Crocodile type is quite open and transparent about this matter. The consumer is a customer who demands a product, is supplied with that product, knows that they will not receive any advice or guidance and does not receive it and therefore enjoys exactly the customer service that they expect. That service is uncomplicated, easy to provide and acceptable to all parties, including the regulator. Its weakness lies in its reliance upon the sales of products during periods of economic decline, when customers are more inclined to withdraw their savings instead of adding to them.

The Amphibian type also sees the consumer as a customer, but in this case the intermediary organisations hold themselves out as financial advisers, not financial products sellers. They tend to be large organisations, typically high street banks and employ advisers who hold the minimum professional qualification required by the regulator. This has emerged as a disappointing area of financial planning, built upon a focus of sales target achievements and rewards, with the result that the customers have been receiving often unsuitable advice.

That is not to suggest that the suitability of the advice in relation to the product provided is not consistent with the requirements of the regulator. Rather it is a matter for determining whether in spite of the fact the advice might be suitable for the customer's want, the want may not be suitable for the customer. As an example, customers are sometimes spurred to request the provision of an Equity Release Plan to fill some perceived gap in their ability to meet their regular living costs following retirement. Whereas a holistic approach to assessing the need would probably provide an answer to the problem by way of identifying unnecessary expenditure and/or tax being deducted from pensions at too high a rate the desire of the organisation's mortgage adviser to meet a sales target may lead to an outcome based upon a much narrower overview.

As with the Crocodile type in periods of economic difficulty this model is barely sustainable. The ultimate assessment of acceptability of this approach to customer relationships has been dictated by both regulators and courts, to the disadvantage of this type of intermediary following recognition that its operation was unacceptable to them and the customer.

The Simian type contains many boutique sized operations employing anything from one person upwards. The qualifications of the adviser are often at the professional level, which, together with generally higher levels of experience, should ensure that the service they provide is suitable for the type of client seeking professional financial planning advice over a range of financial plans. A tendency to limit advice to those areas likely to lead to payment of an ad valorem adviser charge means that complete suitability may be in question.

Nevertheless, the provision of a service at an albeit unknown cost to the adviser to clients paying by this method ensures that it remains an active and acceptable form of customer service for the majority of clients.

The Homo Sapiens type adviser enjoys a close relationship with the client, because they build upon a very full knowledge and understanding of their needs. In consequence they can provide suitable guidance, not only with regard to products, but on far wider issues including taxation, estate planning and long-term care. By maintaining a team of advisers and managers capable of supporting a holistic financial planning and advice business they can ensure the feasibility of this relationship on an ongoing basis.

For the client and organisation the maintenance of the long-term relationship is entirely acceptable, with the former having confidence in the ability of the firm to meet their various financial planning needs across a broad spectrum and the firm developing a sustainable future.

My assessment of the Organisational Structure produced the following outcomes:

Table 22 - Factors Necessary to Underpin Relevant Organisational Structures

Deemed to be Required by Crocodiles (Execution Only Brokers)			Deemed to be Required by Financial Advisers		
Suitability	Feasibility	Acceptability	Suitability	Feasibility	Acceptability
S3	F1	A2	S2	F1	A1
S4	F2	A5	S3	F2	A2
S6	F7		S4	F7	A6
S7			S6	F9	A7
			S7		
			S12		
Total = 4	Total = 3	Total = 2	Total = 6	Total = 4	Total = 4

The factors identified as being necessary in Table 22 are not always present in practice, as demonstrated in Table 23, below.

Table 23 - Factors Observed as being present in Organisational Structures

Crocodiles			Amphibians			Simians			Homo Sapiens		
S4	F1	A2	S6	-	-	S2	F1	A2	S1	F1	A1
S6	F2	A5				S4	F2	A6	S2	F2	A2
S7	F7					S6	F7	A7	S3	F7	A6
						S7	F9		S4	F9	A7
						S12			S6		
									S7		
									S12		

Table 24 compares the requirements of Table 22 with the perceived reality of Table 23.

Table 24 - Comparison of Necessary & Observed Factors in Organisational Strategies

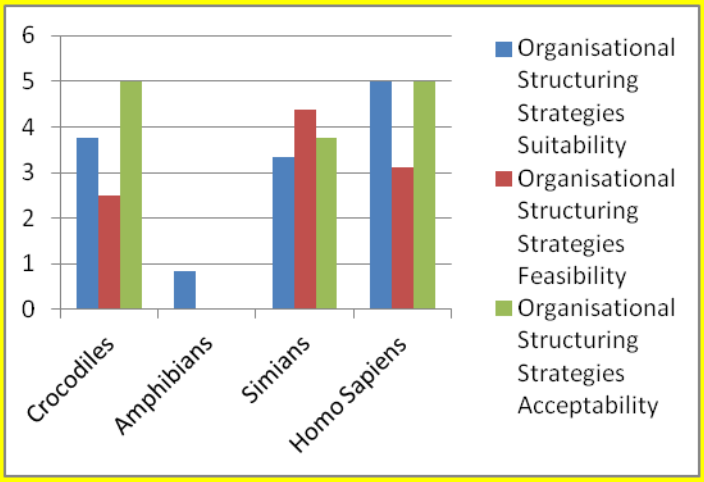
	Crocodile Suitability	Crocodile Feasibility	Crocodile Acceptability	Amphibians Suitability	Amphibian Feasibility	Amphibian Acceptability	Simians Suitability	Simian Feasibility	Simian Acceptability	Homo Sapiens Suitability	Homo Sapiens Feasibility	Homo Sapiens Acceptability
Necessary factors	4	3	2	6	4	4	6	4	4	6	4	4
Observed factors	3	3	2	1	0	0	4	3.5	3	6	2.5	4
% observed	75%	100%	100%	17%	0%	0%	67%	88%	75%	100%	63%	100%
5 scale	3.75	5.0	5.0	0.8	0.0	0.0	3.3	4.4	3.8	5.0	3.1	5.0

Table 25 collates the ratings included in Table 24 in tabular form, whilst Table 26 presents it graphically.

Table 25 - Rating of Organisational Structuring Strategies in Tabular Form

Organisational Structuring Strategies				
	Suitability	Feasibility	Acceptability	Totals
Crocodiles	3.75	2.5	5	11.3
Amphibians	0.8	0.0	0.0	0.8
Simians	3.3	4.4	3.8	11.5
Homo Sapiens	5.0	3.1	5.0	13.1

Table 26 - Rating of Organisational Structuring Strategies in Graphical Form



Organisational structures should be fit for purpose. Crocodile types need a structure that ensures the regular flow of product sales, thereby driving a demand for competent sales personnel. To assist that flow the services of able marketers will also be required, together with clerical assistance to ensure that suitable records of transactions are maintained. Creating such a structure does not present any major difficulties, suggesting that it is entirely feasible.

Ensuring acceptability amongst consumers, regulators and employees within the organisation should be high, because it is designed to be fit for purpose. If the flow of business dries up it could well be the fault of the sales team or the marketers, but not the structure if it has been properly designed at the outset.

The same may not be said for the Amphibian organisation. As revealed in the Broker to Adviser Progression Table 10 it suffers from poor quality compliance oversight, short-term management techniques and a dearth of professionally qualified advisers capable of questioning doubtful ethical practices. The result is a fractured, dysfunctional structure which is neither suitable, feasible nor acceptable to any of the interested parties over the longer term, thereby representing a flawed organisational strategy.

With the Simian operation focused upon the client the presence of a perceptible organisational structure depends upon the size of its operation. In Chapter 3.1 it was noted that many IFAs failed to recognise any difference between the role of an IFA and that of a financial planning organisation. The reason was that they did not discern that there were different roles, even where only one person might be involved. For larger IFA firms a pattern developed of having a team of advisers, well-qualified support in the form of paraplanners and administrators harnessed into a recognisable functioning structure. Where the one-man operation persists the suitability of the structure is therefore questionable, in part because there is a lack of purpose and vision and it may simply fail the fit-for-purpose requirements on grounds of an insufficient range of financial planning competences.

As observed earlier, in some cases such firms are tempted to address these apparent deficiencies by joining IFA networks who promise to fill the gaps, although this may be seen as something of a Faustian exchange.

With the right structure in place the feasibility of overseeing and monitoring a strategy is high and in consequence the outcomes entirely acceptable to the relevant stakeholders, but it does very much depend upon the ability of the firms to create the appropriately relevant structure.

For those organisations operating or attempting to move into the Homo Sapiens type the question of whether or not a suitable structure exists cannot arise. If the structure is not in place the organisation is not operating at that level. The challenge arises around the feasibility of assembling the required personnel with the desired skills. When that has been achieved the outcomes are very acceptable in that they can provide high levels of satisfaction for clients, advisers, organisations and regulators. A failure to achieve it leaves the organisation vulnerable to the flaws of the Amphibian, because of the incomplete management structures and applications that will inevitably arise.

Assessing the strategies employed as a basis for Consumer Charging produces the following results:

Table 27 - Factors Necessary for Consumer Charging

Deemed to be Required by Crocodiles (Execution Only Brokers)			Deemed to be Required by Financial Advisers		
Suitability	Feasibility	Acceptability	Suitability	Feasibility	Acceptability
S10	F5	A2	S8	F3	A2
S16	F9	A5	S9	F4	A4
	F10		S10	F5	A5
			S11	F6	
			S14	F7	
			S16		
			S18		
Total = 2	Total = 3	Total = 2	Total = 7	Total = 5	Total = 3

Table 28 - Factors Observed as being present in Consumer Charging Methods

Crocodiles			Amphibians			Simians			Homo Sapiens		
S10	F5	A2	S10	-	-	S10	F4	A5	S8	F3	A2
S16	F9	A5				S18	F5		S9	F4	A4
									S10	F5	A5
									S11	F6	
									S14	F7	
									S16		
									S18		

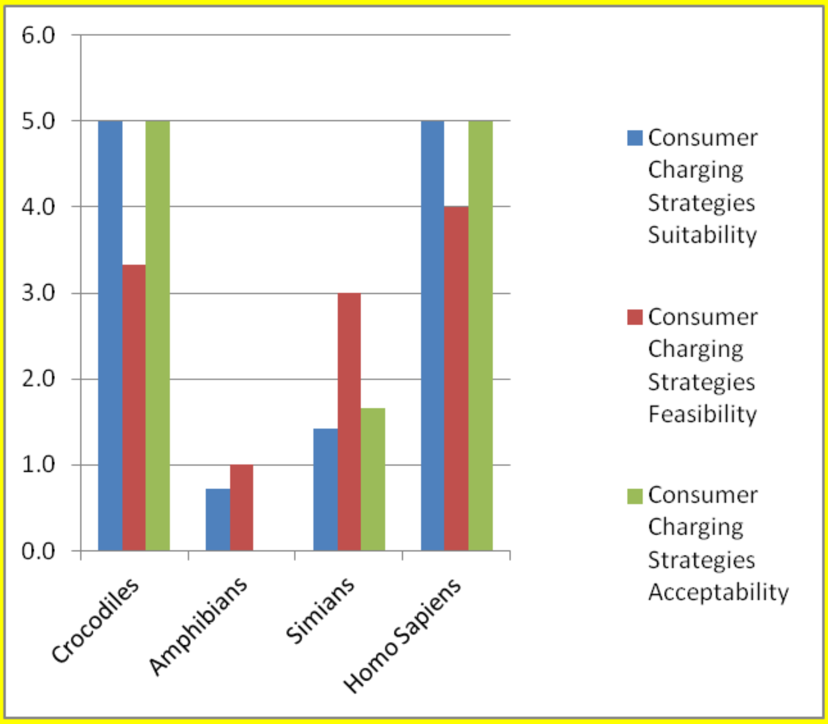
Table 29 - Comparison of Necessary and Observed Factors in Consumer Charging Methods

	Crocodile Suitability	Crocodile Feasibility	Crocodile Acceptability	Amphibians Suitability	Amphibian Feasibility	Amphibian Acceptability	Simians Suitability	Simian Feasibility	Simian Acceptability	Homo Sapiens Suitability	Homo Sapiens Feasibility	Homo Sapiens Acceptability
Necessary factors	2	3	2	7	5	3	7	5	3	7	5	3
Observed factors	2	2	2	1	1	0	2	3	1	7	4	3
% observed	100%	67%	100%	14%	20%	0%	29%	60%	33%	100%	80%	100%
5 scale	5	3.3	5	0.7	1.0	0.0	1.4	3.0	1.7	5.0	4.0	5.0

Table 30 - Rating of Consumer Charging Strategies in Tabular Form

Consumer Charging Strategies				
	Suitability	Feasibility	Acceptability	Totals
Crocodiles	5.0	3.3	5.0	13.3
Amphibians	0.7	1.0	0.0	1.7
Simians	1.4	3.0	1.7	6.1
Homo Sapien	5.0	4.0	5.0	14.0

Table 31 - Rating of Consumer Charging Strategies in Graphical Form



For the Crocodile type it might be argued that charging commission on an ad valorem basis has the advantage of being transparent and unambiguous. Its weakness is that it does not reflect the effort brought to the activity by the intermediary and therefore any link between cost and reward is at best accidental. However, its application is completely feasible and given that customers are responsible for giving the instructions and are aware of the cost it must be assumed that this method is acceptable to them. It remains acceptable to the organisation for as long as they manage to remain in business, so periods of economic downtown place the method under strain as it is bound to do for any remuneration system that relies upon product sales. For the regulators the system is acceptable for as long as the rules on non-advice are met.

In the case of the Amphibian type the difficulties become almost schizophrenic. On the one hand they are obliged to sell financial products and achieve sales targets set by their organisation, a position that also exists for Crocodile types, but openly. On the other hand commissions are banned and the provision of advice to the customer on the suitability of the product for the purposes identified is mandatory. In an attempt to surmount these limitations Amphibian types determined that commissions would be renamed Adviser Charges and advice would be provided by a system of stereotyped paragraphs linked together to provide an often very long "suitability letter" to the customer in respect of every sale. The outcome is that the customer pays the intermediary a sum of money by way of a deduction from their investment or product, using once again the ad valorem method which in turn fails to reflect the amount of effort and skill required to complete the sale or the benefit to the customer.

Thus, the suitability factor scores poorly, as does acceptability for in the long run much of what has been sold through this channel becomes subject to investigation and regulatory scrutiny. The method's strength is its weakness; it is initially very easy to employ and therefore entirely feasible.

From the perspective of their underpinning ethos for charging their clients, Simian types remain largely with the Crocodiles and Amphibians. However, they are now more inclined to employ additional fee techniques to cover the provision, although not necessarily the cost of providing non-commission bearing activities. This leads to a suitability rating that is similar to those other two Levels. Furthermore, the ad hoc nature of the fee-charging, where it exists at all, suggests that there is a lack of a rational system for its application, making feasibility an issue. There is also the problem of using the phrase "adviser charge" to effectively mislead the client into believing that they no longer pay a commission based upon the value of the product provided to them. This is an ethical issue that many, but not all, within this type acknowledge and which my research suggested they wish to overcome.

Unsurprisingly, this Simian type scored rather less well in terms of the suitability, feasibility and acceptability of their consumer charges methods.

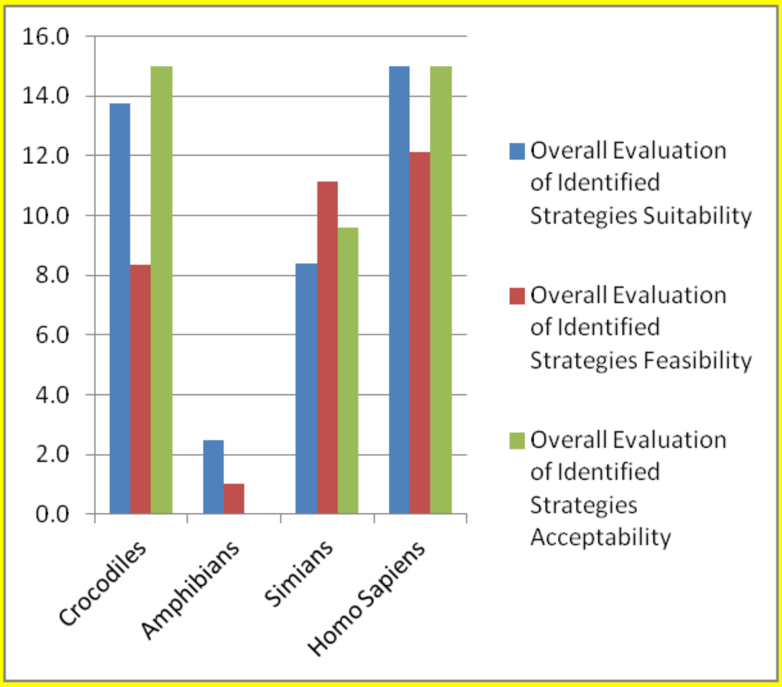
The Homo Sapiens type fared better in many respects. As might be expected the suitability of its charging structure was high, because the method is cost-based, transparent and offers sustainability to both client and organisation. Its difficulty lies in the application of the fees, which without the aid of suitable software can be rather pedestrian. Software costs money and therefore additional cost is added to the fees that will be charged to clients, because fees are cost-based. Notwithstanding this drawback clients should find this method entirely acceptable, because they know that their fees are linked to activity levels and not the value of their investments. For the firms it is known that their costs are or should be covered because they are linked to client activity and the method also offers an opportunity for the development of long-term relationships, which in turn create sustainable futures based upon the provision of advice, regardless of economic circumstances. The regulator must find this acceptable because the method completely rejects commission-based remuneration and is entirely transparent.

By collating the three assessments a judgement can be made on the overall practicality of the different types' strategic patterns, as demonstrated below.

Table 32 - Overall Evaluation of the Suitability, Feasibility & Acceptability of Strategies Employed by Different Broker/Adviser Types in Tabular Form

Overall Evaluation of Identified Strategies	Suitability	Feasibility	Acceptability	Totals
Crocodiles	13.8	8.3	15.0	37.1
Amphibians	2.5	1.0	0.0	3.5
Simians	8.4	11.1	9.6	29.1
Homo Sapiens	15.0	12.1	15.0	42.1

Table 33 - Overall Evaluation of the Suitability, Feasibility & Acceptability of Strategies Employed by Different Broker/Adviser Types in Graphical Form



Whilst it must be acknowledged that this form of assessment is open to the influence of the assessor's personal ontology, it can also be argued that the presence of trends can be ascertained by employing such applications.

In this case it is clear that Crocodile types employ a strategy which is consistent with the needs of the sector within which they work. It is also apparent that a pattern emerges when considering the strategies of the three different types of adviser groupings, with Amphibians exhibiting tendencies of being dysfunctional. Simians and Homo Sapiens with strategies suggesting a tendency towards greater cohesion, also appear to bear characteristics of sufficient similarity as to offer opportunities for progression from the former to the latter.

Opportunities for Development and Progression

The possibility of there being a relationship between the various types and if so how this might assist transformation is explored with the aid of Table 10 (The Broker to Adviser Progression Paths). This table also offers the opportunity to consider the consonance that exists amongst types that in many other respects should be set apart from one another.

In this respect the position of the Crocodile type demands immediate comment; it is set apart from the other three types in that it does not and cannot apply or suggest that the term "adviser" is in any way a part of its ethos. Thus, instead of being looked upon as a part of a development rising to ever higher levels it exists as an annexe to the development, wherein those uninterested in the guidance aspect of financial planning can meet in a clearly defined retreat from it. By extension the Crocodile type does not need to think in terms of progression, because it already inhabits its chosen territory and seeks only to defend it; seeking to extend it would almost certainly lead to a clash with regulators and would also surrender its distinctively separate identity.

It follows, therefore, that the other three types share a common general nomenclature that includes the suggestion of the availability of advice. This does not however, mean that consonance at this point translates into consanguinity in any other respects, so even before giving consideration to different attitudes present in respect of the research topics employed during this work, it is important to recognise that whilst Amphibian advisers prefer to refer to their consumers as customers, Simian and Homo Sapiens prefer the term client. The former reflects the aim to sell a product, whilst the latter suggests a more professional advice-based relationship.

Attitudes revealed in or deduced from the responses of various contributors and recorded in the research part of this project have been organised in the Adviser Progression Paths Table above with the aim of discovering where transition from one Level to another might be possible, before considering how the reflections in Chapter 5 could possibly assist its attainment.

In terms of organisational focus shifting from an Amphibian position to a Simian and ultimately Homo Sapiens model requires a move away from short-termist thinking set within a culture of sales targets and customer form of consumers to an ethos of long term planning underpinned by a strategy aimed at sustaining the business and the relationship with the client. This may demand a change of mind-set on an almost Damascene level.

The issue of culture, raised in the previous paragraph, is linked with the prevailing attitudes that exist within the structure of an organisation, where such a formal structure exists in the first place. As already highlighted, Amphibian types are generally organised on a large scale sales teams basis, employing language such as "winners," "failure" and "losers."

The structure of such an organisation does not encourage thinking in terms of cost/benefit either to itself or its customer. Given the scale of the operation, often supported by the economic power of a bank or insurance company, they should be in a strong position to build a financial planning organisation composed of professionally qualified specialists, including advisers, paraplanners and administrators. In that respect moving to a Homo Sapiens operation ought to be entirely feasible if the will to do so is present. However, as IFA3 commented (Chapter 3.5) when discussing scaling up, until a Sir Richard Branson-type entrepreneur invests in such an organisation the likelihood is that a market of sufficient size does not exist to encourage such large organisations to commit to such a change in their structures.

This suggests that the sector is to be dominated by smaller organisations capable of meeting a niche demand and to do this they will need to desist from operating as very small or even one person businesses and embrace the structure of multi-skilled partnerships. The evidence is that partnerships, above all other organisational structures, are best placed for maintaining an ethos of long-term thinking and delayed gratification (Wilson, 2013). The challenge for the successful consolidation into larger groupings would be to ensure that common or similar cultures exist in the existing organisations before an amalgamation is consummated (Wilkof, 1995) (Weber, 2003).

Charging structures

That the attitudes of Amphibian and Simian types remains firmly committed to being remunerated by commission, albeit by another name, has already been clearly revealed in earlier chapters, including Chapters 3.3 and 3.4 on the characteristics of fees and the nature of commission in a financial planning context. What these two types have in common is that effectively they look back to the methods continuing to be available to the Crocodiles. However, as already pointed out when considering their view of the consumer, the Amphibians see a customer, whereas the Simians see a client. Their mind-sets are at odds in this respect, although their practices are similar.

For the Simians to move to the charging structure employed by the Homo Sapiens will require them to relinquish their claim to adviser charges and embrace a more technically demanding activity-based client fee. This is not necessarily a simple step, but it might be argued that in terms of protecting the business in the longer term it is necessary. Given that some Simians are already charging some ad hoc fees to clients where they believe an additional service has been provided those doing this enjoy the advantage of knowing that clients will pay fees, if and when they are asked, confirming the notion put forward earlier by an existing fee-charging financial adviser (Chapter 3.3).

For all advisers charging fees, however notated, the question has to be answered, for what are they charging? (Financial Conduct Authority TR14/21, 2015) They must be able to respond to this by confirming that they are meeting the needs, not just the wants, of their clients and then being able to detail that provision. In Chapter 5 I have built upon the understanding gained on what it is that clients need and what additional skills are required to address the practical delivery of the service (Knights, 1994).

In a recent article placed in Money Marketing (8/1/2015) Martin Wheatley, the FCA's chief executive, is quoted as saying that clarity of charges remains a sticking point with regard to the attainment of the aims of the Retail Distribution Review (RDR). The article then goes on to say that:

> *"There has been a long-held concern about how far the FCA will go in policing advice charges, although the regulator and trade bodies have dismissed the prospect of an outright ban on charging based on a percentage of assets invested."*

This one short phrase contains much of the confused state of mind existing in the minds of the regulator, The Personal Finance Society, The Institute of Financial Planning, financial advisers and consumers; commissions are banned, but adviser charging on a percentage of the value of the sale is supported, but only in relation to the initial process of product provision; the trade bodies talk piously about the ethics of transparency and fee-charging as long as it does not interfere with the age-old model of commission income, albeit by a different name. Where is the incentive for financial advisers to move to a model that embraces the charging of a fee for the provision of a range of services when the compliance regime overseers offer such contradictory guidance?

It is little wonder that when it comes to addressing the issue of ongoing adviser charging, referred to in Chapter 3.8 on Integrity, that the barriers seem to be insurmountable.

The Intermediary Role

For anyone who has ever received a lump sum of money and deposited it in their bank account the scene is familiar; the cashier invites the depositor to make an appointment with one of their financial advisers who will then seek to reposition that lump sum in a financial product which the bank is selling. The initial desire of the customer to deposit money in their bank account then becomes, in the hands of the adviser/sales person a need to take advantage of some perceived reward which was previously unknown to the depositor and is often subsequently not understood. That is not to say that the advice provided is unsuitable or inappropriate, although the motivation for providing it will certainly have included a desire to meet a sales target. Persistent failure on the part of the adviser to convert these referrals into sales will undoubtedly lead towards their being encouraged to leave the organisation, so a conflict of interest is rarely far from the formulation process attending the advice.

At the other end of the spectrum sits the holistic financial planner who understands the role to embrace consideration of the client's current circumstances and needs, their future requirements and how these are to be met over the longer term. How might it be possible to move from being an adviser working within the Amphibian organisation to one operating within the Homo Sapiens arena and what might prevent that transition?

A required fundamental change in approach will be a move from short-termist tactics to operational procedures which are designed to be constituent parts of long-term strategic aims and working to sales targets can frustrate such a manoeuvre. Furthermore, such a move requires an ability to provide a service that extends beyond the simple provision of financial products and into the realms of advice areas such as taxation, estate planning (a need already identified as a major requirement of clients) and long-term care information. After all the service is presented as being holistic and holistic is defined as being *"characterised by the belief that the parts of something are intimately interconnected and explicable only by reference to the whole."(Oxford English Dictionary)*

In turn that ability needs to be nurtured through a programme of professional examinations focused upon the wider panoply of financial planning. This does not include examination courses on sales supervision and how to motivate sales teams to achieve their targets, as is currently the case with the PFS examinations regime. Indeed such examinations are counter-intuitive to the whole notion of providing professional advice uninfluenced by conflicts of interest. They also miss the opportunity to broaden understanding of the role of marketing in business, including the financial planning profession.

Completion of a suitable programme of study combined with working in a culture of advice provision will encourage the development of appropriate experience, which is rooted not just in longevity but in knowledge and understanding.

Academic qualifications are often decried by the current cohort of tenants of the IFA sector, declaiming that individuals in possession of such achievements enter the role without the experience that longevity brings. The downside of such longevity is that its experience has been forged during a different time warp, one that the Crocodile type still recognises, but which is becoming increasingly untenable in today's market. Smith (2013) argues that an ability to understand that market and how it sits in the wider context of commerce, economics and politics is not only useful, but vital to the survival of the independent advice sector (Bates, 1990).

This does not mean that every adviser has to hold a master's degree, but it does mean that they should be professionally qualified, motivated by job satisfaction and be part of a team led by holders of such professional and academic qualifications.

In the case of Simian type firms many of their advisers have completed or nearly completed their professional qualifications. In itself this does not lead to a business that is free from the temptations of conflicting interests, so a transformation will be required embracing the activity-based fees model, before pressure from a regulator forces the issue and presses unprepared organisations to change or cease trading. Clearly, such change should not automatically require the leadership of a graduate per se, but the reality is that those having a wider understanding of the context will also have the confidence to proceed. The real underlying barrier to transformation is fear of the unknown, not issues which are more irritants than obstruction, such as regulatory costs and professional indemnity insurance (Weeks, 2004) (Mullins, 2007).

Integrity

Where integrity is considered the concept of transition is questionable; as IFA4 remarked, *"you either have it or you don't."* (Chapter 3.8) It is not something that comes in stages, although achieving it may well do. It is effectively a state of mind, both in those being judged and those judging and it reflects the belief that someone who has integrity embodies a quality of being honest and having strong moral principles and is prepared to practice and defend those principles in public, if necessary (Calhoun, 1995).

Developing a mind-set wherein integrity can flower is a different matter. For Level 2 advisers the belief is that if an action or activity is allowed by the professional body or regulator then it is ethical. As a method of conducting business this is placing a great deal of reliance upon two elements, namely that the professional body or regulator is acting ethically in setting such guidance and that in the fullness of time further retroactive reviews do not re-set that standard, leaving the business exposed to more cost in terms of fines and compensation.

The ability to think outside of the conventions of the community of practice could lead businesses to recognise that a deeper awareness of what is right and what is not could provide a better oriented moral compass. Simian type IFAs have an inclination to put their clients' interests first, but find that they must still cling to the concept of seeking remuneration through a system of commission- linked sales of financial products. This is inclined, in turn, to undermine their client-focused ambitions, with the desire to do what is considered right for the client clashing with the need to ensure that remuneration is received for the service provided. Given the evidence provided in review after review by the regulator and the Financial Ombudsman Service, IFAs provide a service which generates very low levels of complaints, suggesting that effectively employing utilitarian ethical standards works well in practice, within the context of selling financial products.

Although the Personal Finance Society and the Institute of Financial Planning both promote the idea that trust is the factor upon which adviser businesses should concentrate, the reality is that trust is an unreliable tool, readily used by confidence tricksters and too prone to emotional subjection.

Honesty requires that IFA firms are transparent in their dealings with their clients and demands that their descriptive titles mean what they say and if they do not then that should be admitted. Are they truly "independent" in terms of ownership, management and philosophy, do they really have skills in finance and are they professional advisers and guides or sales people masquerading as such? Are they really acting as the agent of the client or is a conflict of interest likely to sway advice and in doing so place the client in a less beneficial position and the adviser in a perceived better position than absolute integrity would demand?

Sometimes people do not recognise when their pattern of activities are not of the highest quality, a result of restricted education or groupthink. Nevertheless, when ethical imperfections are exposed integrity is immediately lost and will be almost impossible to recover. Therefore, it would be better to build towards achieving a name for integrity as part of the philosophy of the firm and its employees and a long-term view encourages this. With it repeat business is virtually assured, but without it any future business is uncertain and, in the experience of the banks, the penalties and compensation costs of the absence of high standards of ethics, honesty and integrity is at best significant and at worst crippling.

An ethical ethos based upon the categorical imperative is a sound basis for guiding the culture of IFA firms. It places the client at the centre of its purpose and strategy, does what its title says it will do and creates a regular inflow of cash for the business far into the future. The existence of the firm is thereby assured and in turn its ability to continue to assist its clients through their changing circumstances over time.

Summary

To summarise, to create and maintain a sustainable business the model must have a purpose embracing the provision of a service to clients by professionally qualified advisers, remunerated by a salary and supported by an experienced and well qualified team of paraplanners and administrators. The firm must contain advisers that in total have an expertise in every major field of financial planning, so that the firm, as opposed to the adviser, can address any client financial planning issue with confidence and competence. The firm will be managed by individuals having advanced academic as well as professional qualifications, who will also be salaried.

Fees will be billed to clients and they will identify the activities undertaken by the firm on their behalf and the costs of those activities; so-called adviser charges or anything that suggests the presence of a product related ad valorem charge must not be present. The setting of fee levels will be dependent upon the drafting of budgets, expressed both in terms of resource volumes and money, and the careful monitoring of actual performance and planned performance, both in terms of profitability and consistency with the strategies and purpose of the organisation.

So to finish as I started, with a diagram; the pathway followed by an organisation will ultimately be shown to have symmetry with its objectives and purpose, or not. Asymmetry means a loss of focus and loss of focus will eventually lead to an organisation's demise. Whilst symmetric pathways suggest the presence of planning, the absence of symmetry will suggest the opposite, at least of the long-term kind. In the final diagram the objective is the achievement of a sustainable future for a financial planning organisation, regardless of the economic context.

It is entirely possible to interpret the existence of symmetry within this Diagram of Symmetric and Asymmetric Pathways for the Crocodile type, whose strategies have already been demonstrated to be suitable, feasible and acceptable. However, even with the symmetry that these strategies provide the final outcome for Crocodiles can only be uncertainty in times of weak economic periods.

The aim of this work has been to consider how to avoid that calamity and indeed thrive in such an environment by exploring the influence of morality, ethics and remuneration on the existence, development and survival of the independent finance advice sector. For those categorised as being in the Homo Sapiens arena the evidence from own practical experience and the observations and the arguments contained in this work is that this is entirely achievable.

The difference is that my own organisation is doing it, whereas others could if they had the will to develop certain identified organisational structures, professional and academic competences and moral and ethical mind-sets and embed them within their own operations. Some clarity of thought and direction from the regulator and those trade bodies claiming to be representing the interests of financial advisers would assist this process of change and sustainable development through an alignment of objectives focused upon bringing common advantage to themselves, their members and consumers alike.

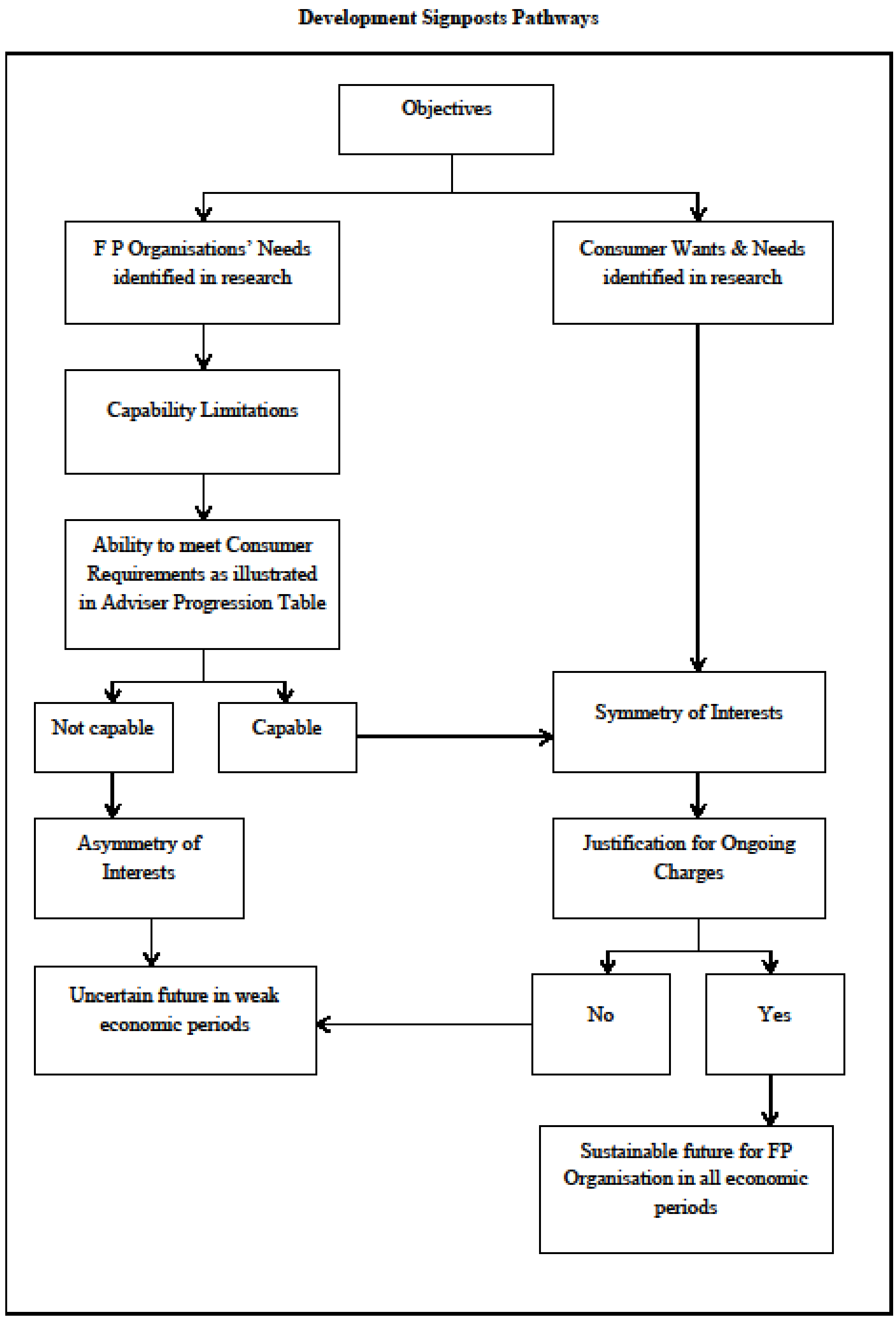


Figure 20 - Development Pathways Diagram (Cawdell K E 2015)

Chapter 7 – Looking Back on Looking Forward

Summary of main themes discussed in this chapter

- The why and the how of getting it right
- Evidence of resistance to change amongst the IFA community
- Myths and realities of fee-paying
- The potential for future developments
- Agency frameworks – a final thought

The Why and the How of Getting it Right

When I decided to commence in business on my own account the very first thing I did was to draw up a plan of what was needed in terms of facilities and activities. My assumption was that I could and would acquire the former and undertake the latter, but having identified the requirements I then costed them and compared that cost with my assumptions regarding sources of cash inflows. It was at this point that I was faced with the devastating realisation that all would not be plain sailing. Timing is everything, they say, and in this case that is exactly the point at which to become aware of such a harsh reality, for the opportunity to change the plan or simply recognise that running this proposed business or perhaps any business is not the way forward for you.

This, I believed, was surely what everyone did before deciding to commence in business, for how else would it be possible to determine that one's future had a reasonable chance of success, or that following a particular course of action would probably result in disaster, without having drafted such a plan? Whilst subsequently I have become aware that such an assumption was not particularly robust, until I had commenced my programme of academic activities I had not realised just how flawed it was in terms of the financial advice and planning sector.

Such academic activities have provided me with the opportunities to reflect upon what and how I was approaching the development of our own financial planning practice, why others appeared to be, superficially at least, more successful in their endeavours and how we might match or even exceed their achievements. After forty years in business on my own account and more than fifty years of working in the financial services sector what has become apparent is the temporary nature of most of those competitors' existences. Whilst I have not attempted, as part of this work, to provide vigorous statistical support for the notion that each ebb in the economy of the UK and/or the world generally is accompanied by the decline or disappearance of financial advice organisations, the reality is that over the past forty years insurance companies have decreased in considerable numbers, their sales forces are virtually a thing of the past, banks have similarly contracted (does anyone now remember the District Bank, Martins Bank, National Provincial or Williams Deacons?) and few firms of IFAs have a lineage going back further than a decade.

To repeat, my initial aim when considering whether or not to open for business on my own account was to ascertain whether it would be possible to survive and from that position develop an enduring and thriving enterprise. This required looking at the longer term and then determining how the required strategic structure was to be created on a day-to-day basis. There was also a critical ingredient in this strategic planning approach, namely to ensure that having defined what was the prevailing sociological, technological, economic and political context, how that might change and, therefore, how to prepare for that change.

It struck me at the time I commenced my master's course and has repeatedly reinforced itself since that it was only at that point and beyond that I began to understand why it was that our business survived. Many argue that academic qualifications do not provide what in their opinion is appropriate experience and knowledge to assist them with the running of the businesses, an assertion that recurred frequently throughout my face-to-face meetings with contributors to this work. However, it is my understanding that whilst some of us manage to oversee the running of our enterprises using hard-won field experience blended with some innate or intuitive ability, it is still restricted by the limited landscapes with which we have come into contact.

Benefiting from the experience and research undertaken by others, without having to wait for an opportunity to gain that knowledge through practice not only provides a platform for future developments in your own business, but also creates a foundation built upon the confidence of knowing why what has already been done has been successful. As an example, those working with and for me have always been emboldened to undertake duties a little beyond their existing briefs, safe in the knowledge that if on rare occasions a problem arose blame would not be attached to them. The outcome of this approach, known as empowerment, has been to create teams capable and willing to extend our corporate knowledge and competence to the benefit of staff, clients and the organisation.

Concepts such as "SECI" and "Ba" (Nonaka, 2005) covering corporate knowledge creation and worker empowerment (Vidal, 2007) have served to confirm that what I had been doing instinctively had some academically researched support as to its general utility. The acquisition of this level of confidence has served to drive the application of further change as altered business environments unfurled or were expected to emerge. The aim of the current regulator, the Financial Conduct Authority, and its predecessor to drive commission from the equation with regard to financial advice and planning is just such a change. Our perspective on this has been to ensure that a reliable inflow of cash is available to support the long-term future of the business, that is to charge our clients fees for the services they need and we provide. On that basis commission does not enter the process and our belief is that the regulator would be better served in achieving its espoused aim by concentrating upon how to inculcate fees-charging as the preferred method of producing income, as opposed to simply banning a long-standing, familiar and popular method.

During my research it has become apparent that the majority of financial advisers have qualified only to the level that legislation has required of them. Few have qualifications or experience gained from beyond the confines of the limited sector in which they currently operate and as such very few were able to articulate how they might move from a commission-type operation to an activity-based fees approach, even where they expressed the wish to do so. Lacking the platform which an academic background has provided for me they are left to continue their existing ways up until the point somewhere in the future where the deception that percentage-based adviser charges are really just commission by another name is exposed and finally closed down.

Evidence of Resistance to Change amongst the IFA Community

In 2011 having reached a venerable age our business team agreed that in the interests of our clients we should begin the process of transferring ownership of the business to another team. We set down minimum standards which we would expect our acquirers to maintain as follows:

1. Clients' affairs would be reviewed frequently through the medium of face-to-face or telephone meetings occurring at least annually.
2. The basis for charging clients would remain activity-based; any form of commission charging would not be introduced.
3. Acquirers would hold a minimum qualification of Chartered Financial Planner or be close to achieving it.
4. On no account would this business suit an enquirer simply seeking to acquire a bank of inflowing ongoing adviser charges/commissions, so such approaches from that quarter should not be attempted.

To assist the process we engaged a business transfer agent specialising in the IFA sector, making clear to them our benchmark requirements. Since that time we have been approached by twenty-seven different organisations. Of these nineteen held only the Diploma qualification or equivalent, six were qualified as chartered financial planners, two had been struck off by the regulator for inappropriate activities but were attempting to continue operating by purchasing an authorised business, six also held first degrees, two held masters degrees and one held a doctorate. In short only five of the twenty-seven enquirers matched or exceeded the criteria we had set down.

Notwithstanding this, we have met and/or discussed with enquirers in detail the processes that our firm employs, emphasising that the fees-based framework that we have and which our clients have sought meets all of the regulators current requirements and is ready to meet the demands of an outright ban on percentage-based adviser charging/commission. Many agreed that this was in line with what the regulator would ultimately require. However, only one of the enquirers has acknowledged this and confirmed that they would maintain the current processes because it was exactly what was needed; all others indicated that they would simply return the clients to a percentage-based charging structure where this appeared to yield a benefit to the acquirer and abandon those with small investments altogether.

Our decision to place our business on the market has effectively allowed us to undertake parallel research into the espoused desires of IFAs and the reality of how they would react given the choice between managing an existing fees-based practice with acquiescent clients and maintaining their own status quo. In essence it questions whether the pronouncements made by many IFAs interviewed during my research concerning a desire to become fees-based were really subliminal works of fiction.

It also questions whether the desire of most IFAs is to concentrate their entire energies upon selling financial products, as opposed to organising and guiding a business. For the former purpose it remains sufficient to be qualified to the benchmark level prescribed by the current regulator, but for the latter qualifications and experience embracing those to which I refer at the beginning of this chapter would be required. Thus, it appears that because a fees-based practice will require business experience, demanding as it does cost analysis, fees charging and invoicing and debtor management, the achieving of such a development on a wider scale whilst relying upon the available human resource material will remain challenging.

This is what is implied in the Strategic Differential Model (Figure 19) whereby the Organisational Structure alternatives suggest that those prepared to work within a strategically collaborative framework of specialists, including authorised financial planners, seek to provide common advantage to their clients, their firm and themselves; those working within a sales environment are inherently competitive and thereby inclined to avoid any form of collaboration which does not seem to add to their individual positions.

What is disappointing is that the apparent approach of most IFAs, as exposed by my own research and the evidence produced by these potential purchasers is based upon the false premise discussed in the next section.

But has anyone asked them?

The oft-repeated mantra of IFAs is that clients will not pay fees. They say it so often that it has become the equivalent of a creed within the sector; they say it so often that they have come to believe it, rather after the fashion of that Machiavellian thinker and observer of human character Joseph Goebbels (Stille, 2011). Typically Goebbels had plagiarised this quotation from the father of modern psychology William James (1842-1910) who had said:

> *"There's nothing so absurd that if you repeat it often enough, people will believe it."* (Klonowski, 2012)

In my experience to say that clients will not pay fees is absurd, because in the words of the fee-charging IFA quoted in Chapter 3, “Has anyone asked them?”

From my perspective the answer is a resounding “yes”, because some fourteen years ago we asked that very question of our existing client-bank and were astonished to discover that every one of those asked not only replied in the affirmative, but perhaps more importantly from a business standpoint, then signed the fee agreement. Our astonishment was that the reality of the response was in complete contradiction to the mantra regularly repeated amongst the community of IFAs. The only practical challenge was how we as a team were to find the time to meet the demand for this enhanced service, not how to find a client willing to pay fees.

However, despite my recounting this record of events to IFAs around the country and in particular to those who enquired about the possibility of being considered purchasers of our business the key misconception that clients will not pay fees was clung to with an almost limpet like grip. There is the possibility that this mantra is repeated to provide a fig-leaf capable of obscuring the desire of most IFAs to hold to their sales-motivated culture of earning a living by being remunerated by commission, which in turn is linked to the size of the sale, not the level of activity and guidance provided. More research will be needed to test this proposition and more encouragement for change provided in the form of some quantitative evidence of income and profits achieved over intervals covering at least one period of economic decline.

From my own stance the evidence supporting the long-term case for a fees-based practice rests within the statistics of our own business, which records relentlessly increasing cash inflows and long-term relationships with clients which have stood the test of two severe recessions since we substituted commission income with fee-charging. This has enabled us to avoid the incongruity of working for clients without reward and even where this has occasionally resulted in the non-payment of fees it has allowed us to identify which of those clients do not maintain the ethical ethos within which we seek to work.

Our team has worked long and hard to amass the relevant academic and professional knowledge and expertise necessary to provide clients with a sophisticated service for which we expect them to pay a fee. Will they? - well we have asked them and they have said, “yes”.

What Next?

What has gone before in this work relates to what has happened, what is happening and what might be desirable for the future. It is at the stage that I had reached with regard to our own business when developing my MBA, insofar that it contained much theory and planning, but was not of itself “action” to aid transition. If action is to take place then a pattern of activities will be required over the longer term, a phrase consistent with the notion of strategy.

The initial step in developing a pattern would be to write a series of press articles with the aim of stimulating discussion and revealing, through the Readers Letters sections, embedded attitudes of those working in or affected by the working practices of the sector. To this end I intend to contact the editors of financial planning papers offering general articles on the basic theme of my work. Whilst the range and extent of responses cannot be pre-judged it would be expected to be diverse and robust, from opinions reflecting denial and a willingness to defend the status quo to a recognition that there must be change and an acceptance that this will both take time and a change in cultures. This tactic might also be employed with the national broadsheet press.

Such articles should also provide a platform for the development of the pattern by encouraging the employment of the four additional routes referred to below, namely

- Providing Seminar Presentations to the IFP/PFS Memberships
- Encouraging changes to the Professional Examination Curriculum
- Modifying Degree Courses for Undergraduates
- Publishing a booklet providing guidance and support to new and existing IFAs on the building blocks required for the development of a fees-based independent financial planning organisation.

Whilst it is recognised that not all members of professional bodies or associations attend such organisations’ gatherings it is assumed that many of those that do have an interest in developing their range of understanding. With this in mind, and with the topic having already been raised in the press, providing presentations to members incorporating ideas on operational change aligned to current and future needs will offer opportunities for delegates to reflect upon and develop practical pathways towards implementation.

Although such activity is not expected to achieve change overnight it would form part of a programme set upon changing cultures, not only as a mind-set, but in offering practical signposts on how it might be achieved. My early employment in the forestry sector suggested that setting seedlings is more often the way to success in creating a new woodland than attempting multiple semi-mature transplants. In this case the woodland is the professional culture, the seedlings are ideas and the transplants are represented by opaque regulations and the vested interests influencing them.

When asking contributors the question, "what is the purpose of a financial planning organisation," what became clear was the lack of understanding of the generic role of organisations and the part that they should play in setting down its purpose and the long-term plan to achieve it in a sustainable way. That this is a fundamental requirement if a business is expecting to survive, let alone thrive, has already been emphasised earlier in this work (Drucker 1974). By re-awakening my embryonic plans developed for the creation of a financial planning degree, referred to in Chapter 2, and using them as the basis for discussions on broadening the core curriculum with the examinations-setting bodies the opportunity to address this weakness would emerge. It should result in the requirement for aspiring financial planners to sit and pass a mandatory paper covering the purpose and utility of organisational structure and the role of accounting and finance, both generally and within the context of the financial planning sector. Where these aspects had already been incorporated in a degree held by candidates exemptions would be offered in the usual way.

In my role as a senior lecturer in accounting and finance and as a businessman I have become aware of a number of universities' whose business schools already offer first degree courses in financial services, often incorporating existing accounting and finance modules as part of the package to improve the efficiency and economy of presentation. It is clear, therefore, that opportunities exist to promote career options awareness to undergraduates planning a future in financial services by including the basic contents of the accounting and finance unit, in parallel with organisational structures, as a core element of their degree programme. This could be supported and encouraged through and by the professional bodies, both existing and proposed, with the creation of the latter currently being discussed within the confines of at least one university.

In terms of looking to the future it is sensible to ensure that those entering a sector are suitably prepared for its demands and not those of the past. Modifying examinations courses, both academic and professional, will assist this.

However, this does not address the issue of how existing practitioners are to be encouraged and assisted to change their practices.

For a new entrant a practical guide in the form of a booklet would underpin the learning garnered through their academic and professional examinations programmes. For existing practitioners, and as such the new entrants' potential mentors, a short publication in the form of a guide will be needed to develop motivation and enthusiasm in such a way that confidence in abandoning their existing ways is developed. The Broker to Adviser Progression Table (Table 10 - Broker to Adviser Progression Paths) identifies characteristics of various types of broker/advisers and seeks to determine the ease with which each might transition towards the changes that are expected.

To assist that process the Guide will cover the following aspects:

- The desired components of the organisation to meet its agreed purpose
- How to create and maintain a plan covering resources, costs, fees-setting and cash flows
- Governance and management accounting
- Practical Marketing

Such a Guide will sit alongside the presentations to professional bodies' seminars, providing a reference point to the many thousands of practitioners espousing a wish to transition, but, as evidenced by those that indicated an interest in purchasing our fees-based business, unwilling to abandon old habits even when a ready-made opportunity is presented to them.

A recurring theme throughout this work has been the overt or subliminal dissatisfaction expressed by IFAs with regard to the representation and addressing of their needs, free from the influence of those whose interests lie in a different and sometimes opposite direction. I also became aware of muted discussions aimed at the creation of such a body, albeit within a group of IFAs firmly attached to the development of their own academic achievements and allied to another university.

Reference has already been made to an earlier attempt to create such a body having foundered. Attempts to analyse the precise cause for this failure have not been undertaken, but further enquiry would assist in another attempt avoiding whatever pitfalls were encountered.

That there is a need for such a body is apparent, but the extent of the core requirements and therefore the cost of meeting them would be the subject of further research amongst interested parties of IFAs. History suggests that attempting to provide more than a core set of needs leads to the mushrooming of unnecessary costs, which insurance companies and their allies then "volunteer" to meet, with the return to the principle that there is no such thing as a free lunch. Therefore, keeping it simple, focused and controlled would of necessity be of the essence if this new agent for IFAs was to be of real value.

Agents and Agency – A Final Thought

In the introduction to this work I suggested that a modern society is one that is inextricably locked into a matrix of agencies. If it is accepted that this is the case then I would argue that the whole premise of this work is the product of blending together the experiences of others with my own to create what I hope can act as an agent which assists and extends the experiences of those who follow in the development of a profession of independent financial planners. In other words I have considered the thoughts of others who have undertaken research or have had practical experience in areas that I have not and in their doing so they have acted as the agents for the dissemination of that information and knowledge to me.

My final reflection, therefore, is that whilst many claim that on-the-job experience is what really matters when it comes to being useful in making that claim they effectively limit the range of agents that they employ in the process of extending individual experience. True experience is the consummation of building upon the agencies of education, that in turn inspires a thirst for further career-focused study of courses compiled through the agency of professional bodies, which can be harnessed with past, present and future practical experience gained individually and through the agency of colleagues and peers. That true experience offers much greater utility to its holder, because its acquisition path is fairly plain to see and because of its causal ambiguity (Lippman and Rumelt 1982), wherein a potential consumer can see how and what was gained, whilst recognising that to replicate that model of knowledge to achieve their required outcome is not possible. As a result they can elect to pay the requisite fee to that chosen agent for satisfaction of their requirement in a manner that is more cost effective (Coase 1937).

So, in a profession developed upon the foundation of supplying knowledge-based guidance, remembering that agents have been and will continue to be employed to acquire that knowledge and thereby empower its practitioners to be agents for discerning consumers is paramount. Furthermore, that knowledge must contain an understanding of the wisdom of maintaining high ethical standards whilst avoiding conflicts of interest and that is best achieved by this particular type of agent charging a professional fee for a professional service. To apply this final principle within this framework of agencies is to create a practice of integrity.

Appendix

The Meaning of Words Employed in the Financial Services Sector

Word or Phrase	Financial Planning Context	Concise Oxford Dictionary Definition
Adviser	Provider & guide on the products provided by another	A person who gives advice in a particular field
Agency	A formal arrangement imposed by a product provider on a financial adviser or planner not employed by the provider	An attempt to create a formal framework to determine the optimal contract between principal and agent
Commission	Denotes the remuneration received by the adviser as a result of a financial transaction implemented by him/her, when the same is calculated as a percentage of the value of the transaction – Institute of Financial Planning Code of Ethics	a sum, typically a set percentage of the value involved, paid to an agent in a commercial transaction
Commission agent	Execution Only broker	A person who transacts business on commission, typically on behalf of a principal
Ethics	A set of rules of conduct and professional practice	The study of moral standards and how they affect conduct
Fee	"Fee-based" denotes a method of remuneration is received in the form of a fee, whether it is paid direct by the client or out of commission received by the member or by any related party in respect of any transactions carried out on behalf of the client which is then off-set against fees payable to the member - (Institute of Financial Planning Code of Ethics) The Personal Finance Society does not provide a definition	A payment made to a professional person or to a professional or public body in exchange for advice or services
Field	A particular branch of study or sphere of activity or interest	A particular branch of study or sphere of activity or interest e.g. *we talked to professionals in various fields*
Financial	Financial products	Relating to or involving money
Financial Planning	1. Denotes the process of developing strategies to assist clients in managing their financial affairs to meet life goals (Institute of Financial Planning Code of Ethics) 2. KInf4 p1 – financial planning implies to me a sort of longer term view; much ore a sort of trajectory rather than just solving a problem now.	Strategic and tactical planning relating to or involving money
Guaranteed	A guide to intended outcome incorporating caveats to cover a failure to succeed	In law an undertaking to answer for the payment or performance of another person's debt or obligation in the event of a default by the person primarily responsible for it. Provide a formal assurance, especially that certain conditions will be fulfilled relating to a product, service, or transaction

Independent	Not directly employed by an insurance company	1.Free from outside control; not subject to another's authority: 2.Not depending on another for livelihood or subsistence 3.Capable of thinking or acting for oneself 4.Not connected with another or with each other; separate
Independent Financial Adviser	1. A good IFA, mortgage broker or mortgage advisor will be able to give you advice and guidance on the process of applying for a mortgage (Taylor Wimpey) 2. Independent Financial Advisers provide advice to their clients on savings and investments and other financial matters and recommend suitable financial products selected from across the market 3. v. KInf4 p1	None provided, but by incorporation of definitions already provided they are people who provide advice relating to or involving money and are free from outside control, unrestricted by a reliance for their livelihoods on others, capable of acting and thinking for themselves and not contractually bound to another.
Industry	The branch of economic activity concerned with the functioning and operation of the financial services sector	Economic activity concerned with the processing of raw materials and manufacture of goods in factories; a particular branch of economic or commercial activity
Integrity		The quality of being honest and having strong moral principles
Professional	Adviser holds a minimum of benchmark qualification required by the regulator to practice	An occupation in which an individual uses an intellectual skill based on an established body of knowledge and practice to provide a specialised service in a defined area , exercising independent judgement in accordance with a code of ethics and in the public interest (UKIPG)
Qualified	Anything which meets the minimum requirements of the FCA, but used loosely viz. *"all of our advisors are fully qualified" The Affinity Group referring to the DipPFS QCA Level 4 examinations*	Officially recognized as being trained to perform a particular job
Restricted	An adviser authorised by the regulator to advise on a limited range of financial products	limited in extent, number, scope, or action

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